

Sunrise



Thursday, 31 July 2025

KBC Sunrise Market Commentary

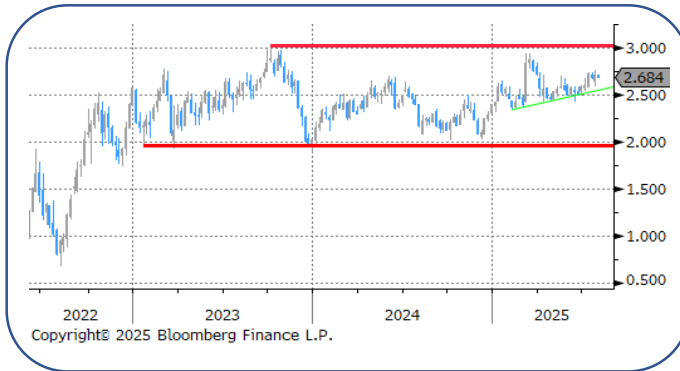
Markets

- **The Fed's policy rate stayed at 4.25-4.5% yesterday.** It wasn't a unanimous decision though. **Two governors favoured of a 25 bps cut.** Waller has repeatedly called for a July cut, citing a weaker economy and labour market than headline numbers suggest. For Bowman it was a matter of tariff inflation not realizing as much as initially feared. **But for the FOMC majority it all remains to be seen and want to wait out a couple of months.** The statement contained only some marginal changes. The growth assessment was downgraded from "expanding at a solid pace" to "moderating in the first half of the year", with Powell during the press conference referring to a slowdown in consumer spending. With the July status quo, the Fed is buying time to wait and see future data rolling in. That seems to be both possible with a labour market and economy in a solid position and necessary: Powell said they are **"still a ways away from seeing where things [ie tariffs impact] settle"**. The Fed chair didn't bite the bait when asked if the central bank would cut rates in September, as suggested earlier by US president Trump. US rates rallied between 4.3 and 7.3 bps in a bear flattening move. This suggests markets were at least expecting some kind of concrete clue for near-term easing. Bets for a September move fell from around 70% to <50%. **All eyes are now turning to the "Labor Markets in Transition: Demographics, Productivity, and Macroeconomic Policy"-themed Jackson Holy symposium** taking place August 21-23. This served in the past multiple times as an occasion to announce policy changes. The dollar extended a three-day jump against the euro and pushing the EUR/USD pair towards the 1.1431-support. The trade-weighted index tested but closed below the 100 barrier.
- In overnight news, **South Korea became the latest country in securing a trade deal** with the US ahead of the August 1 deadline. They agreed to a 15% import levy and a Japan-like \$350bn SK fund for US investments. While talks with India are ongoing, they will have a 25% rate plus a penalty for buying Russian energy starting Friday. The economic calendar for later today takes a step back after yesterday's data flurry that included US and European GDP. The first EU member states inflation prints were also released on Wednesday with **Italy, France and Germany joining the streak today.** June PCE inflation in the US is up for publication too but could already be extracted from yesterday's Q2 reading. In addition, Powell during the press conference already said (core) PCE would be 2.7%. **We're now looking at Friday's payrolls report** to validate the central bank's relatively optimistic view and to determine (front-end) rates short-term trajectory. That will be the case for the USD as well. We are looking for EUR/USD to bottom out somewhat now but it's the labour market report that'll have the last say. EUR/USD 1.1431 survives for now.

News & Views

- **The Bank of Japan kept the policy rate unchanged at 0.5% this morning.** It slightly upgraded the growth outlook for fiscal year 2025 (through March 2026) to 0.6% while keeping the forecasts for the two years after unchanged. Core inflation (ex. fresh food) for FY 2025 got **a significant bump to 2.7% from 2.2%.** Inflation forecasts for 2026 and 2027 were lifted to 1.8% and 2%. Risks for growth remain tilted to the downside but uncertainty diminished from being "extremely high" to "high". **Price risks meanwhile are seen as generally balanced,** to be compared to the downside risks for 2025 and 2026 it cited in the previous outlook report. **This suggests the central bank is moving closer to another rate hike.** Money market pricing didn't budge a lot with a 25 bps increase priced in for about 80% by the end of the year. The Japanese yen creeps higher against an overall weaker USD. USD/JPY trades near 148.9.
- **The Banco do Brasil held rates steady at 15% at yesterday's policy meeting.** The first and widely expected hold interrupted a sequence of seven hikes that raised the Selic rate a cumulative 4.5 pts. The BdB said **it'll remain at 15% for the foreseeable future** amid above-target inflation (5.3% in June vs a 3% +/- 1.5 ppt target) due to public spending and a near record-low unemployment rate. Inflation is expected to remain too high at least through 2027Q1. Tariff-related uncertainty over trade strengthens the central bank's cautious stance. US President Trump on Wednesday delayed the implementation of a 50% levy by seven days (beyond the August 1 deadline). He also listed hundreds of products to be exempted from tariffs. The Brazilian real welcomed that by erasing much of the earlier losses. USD/BRL closed at 5.57 and has yet to react to the BdB's policy decision.

Graphs



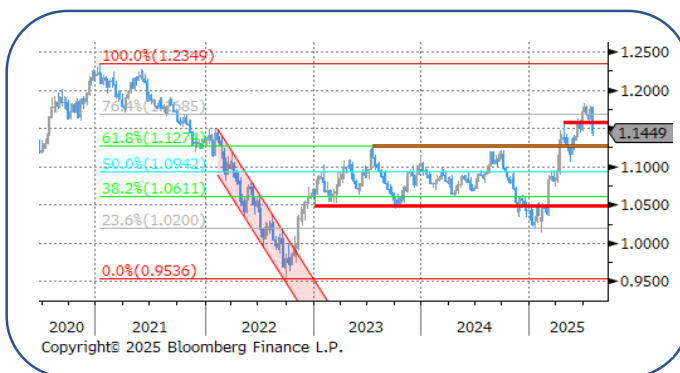
GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2%, reaching neutral territory**. The ECB moved to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to US assets intensifies. This slowed the rise in LT yields with market focus fluctuating between tariff wars to public finances.



US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening**. It suggests steady policy rates at least until after summer. **LT bond yields' trend higher on President Trump's big, beautiful, deficit-increasing bill recently stalled on renewed growth concerns**. This market flip-flopping between the fiscal and economic theme is here to stay.



EUR/USD

Trump's explosive policy mix (DOGE, tariffs, big beautiful bill) triggered uncertainty on future US economic growth and sustainability of public finances with markets **showing a loss of confidence in the dollar**. The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation. **EUR/USD is in a buy-the-dip pattern on track with a medium term target at 1.2349**. The current drop has potential through 1.1184.



EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on sterling earlier this year. Some relieve kicked in as president Trump seemed to be more forgiving towards the UK when it comes to tariffs. **Recent UK eco data led money markets back to discounting an additional two rather than one BoE rate cut this year**. Sterling suffered a new setback, bouncing off strong technical support around EUR/GBP 0.84.

Calendar & Table

Thursday, 31 July		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Jul)	--	-1.60%
14:30	Personal Income/Spending (Jun)	0.20%/0.40%	-0.40%/-0.10%
14:30	Real Personal Spending (Jun)	0.10%	-0.30%
14:30	PCE Price Index MoM/YoY (Jun)	0.30%/2.50%	0.10%/2.30%
14:30	Core PCE Price Index MoM/YoY (Jun)	0.30%/2.70%	0.20%/2.70%
14:30	Employment Cost Index (2Q)	0.80%	0.90%
14:30	Initial Jobless Claims	224k	217k
14:30	Continuing Claims	1953k	1955k
15:45	MNI Chicago PMI (Jul)	42.0	40.4
Japan			
31JUL	BOJ Target Rate	0.50%A	0.50%
31JUL	BOJ GDP Current Forecast (3Q)	0.60%A	0.50%
31JUL	BOJ GDP Current Forecast +1 (3Q)	0.70%A	0.70%
31JUL	BOJ GDP Current Forecast +2 (3Q)	1.00%A	1.00%
31JUL	BOJ Core CPI Current Forecast (3Q)	2.70%A	2.20%
31JUL	BOJ Core CPI Current Forecast +1 (3Q)	1.80%A	1.70%
31JUL	BOJ Core CPI Current Forecast +2 (3Q)	2.00%A	1.90%
31JUL	BOJ Core CPI Ex-Energy Current (3Q)	2.80%A	2.30%
31JUL	BOJ Core CPI Ex-Energy Current Forecast +1 (3Q)	1.90%A	1.80%
31JUL	BOJ Core CPI Ex-Energy Current Forecast +2 (3Q)	2.00%A	2.00%
1:50	Retail Sales MoM/YoY (Jun)	1.00%A/2.00%A	-0.60%/-1.90%R
1:50	Industrial Production MoM/YoY (Jun P)	1.70%A/4.00%A	-0.10%/-2.40%
7:00	Housing Starts YoY (Jun)	-16.40%	-34.40%
7:00	Consumer Confidence Index (Jul)	35	34.5
UK			
1:01	Lloyds Business Barometer (Jul)	52A	51
1:01	Lloyds Own Price Expectations (Jul)	61A	61
EMU			
11:00	Unemployment Rate (Jun)	6.30%	6.30%
Germany			
14:00	CPI MoM/YoY (Jul P)	0.20%/2.00%	0.00%/2.00%
14:00	CPI EU Harmonized MoM/YoY (Jul P)	0.40%/1.90%	0.10%/2.00%
9:55	Unemployment Change (000's) (Jul)	15.0k	11.0k
9:55	Unemployment Claims Rate SA (Jul)	6.30%	6.30%
France			
8:45	CPI EU Harmonized MoM/YoY (Jul P)	0.20%/0.80%	0.40%/0.90%
8:45	CPI MoM/YoY (Jul P)	0.20%/1.00%	0.40%/1.00%
Italy			
10:00	Unemployment Rate (Jun)	6.40%	6.50%
11:00	CPI EU Harmonized MoM/YoY (Jul P)	-1.10%/1.60%	0.20%/1.80%
Belgium			
11:00	Unemployment Rate (Jun)	--	6.50%
China			
3:30	Manufacturing PMI (Jul)	49.3A	49.7
3:30	Non-manufacturing PMI (Jul)	50.1A	50.5
3:30	Composite PMI (Jul)	50.2A	50.7
Poland			
10:00	CPI MoM/YoY (Jul P)	0.20%/2.80%	0.10%/4.10%
Events			
Q2 earnings	Comcast (bef-mkt), Mastercard (bef-mkt), Coinbase (aft-mkt), Amazon (aft-mkt), Apple (aft-mkt) ...		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.37	0.05		US	3.94	0.07	DOW	44461.28	-171.71
DE	2.71	0.00		DE	1.95	0.01	NASDAQ	21129.67	31.38
BE	3.22	0.00		BE	2.04	0.01	NIKKEI	41117.57	462.87
UK	4.60	-0.03		UK	3.88	-0.02	DAX	24262.22	44.85
JP	1.56	0.00		JP	0.83	0.00	DJ euro-50	5393.18	13.98
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2.19	3.59	3.68	€STR	1.9240	0.0010			
5y	2.36	3.59	3.76	Euribor-1	1.8840	-0.0170	SOFR-1	4.3522	0.0054
10y	2.68	3.84	4.09	Euribor-3	2.0170	-0.0090	SOFR-3	4.3236	0.0235
				Euribor-6	2.0850	0.0020	SOFR-6	4.2360	0.0549
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1405	-0.0142		EUR/JPY	170.51	-0.91	CRB	305.24	-0.71
USD/JPY	149.51	1.05		EUR/GBP	0.8616	-0.0033	Gold	3352.80	-28.40
GBP/USD	1.3237	-0.0114		EUR/CHF	0.9295	-0.0011	Brent	73.24	0.73
AUD/USD	0.6434	-0.0076		EUR/SEK	11.1736	0.0299			
USD/CAD	1.3828	0.0058		EUR/NOK	11.7739	-0.0096			

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