



Monday, 18 August 2025

KBC Sunrise Market Commentary

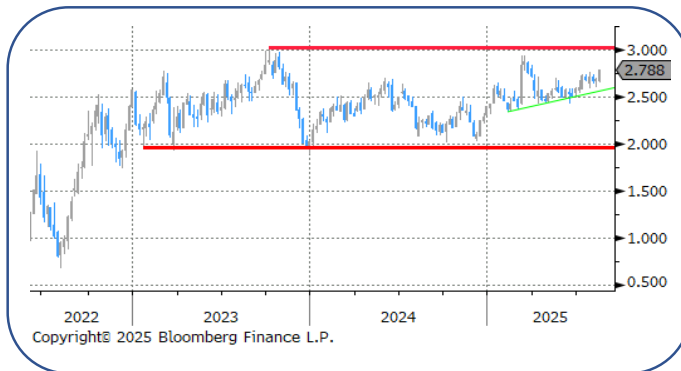
Markets

- US data on Thursday and Friday dampened hopes** for the **Fed to turn to more neutral policy conditions already at the mid-September policy meeting**. After an unexpected acceleration in PPI inflation, **July US retail sales** also didn't show any urgency for the Fed to fuel demand already at this stage. Headline sales rose a close-to-expectations 0.5% M/M with June sales being upwardly revised (0.9%). Control group sales (0.5% M/M) also still suggest a decent contribution of consumer spending to Q3 GDP. The **NY empire manufacturing survey** printed at a solid 11.9 (best in nine months). **Michigan consumer confidence** disappointed (58.6 from 61.7), mainly due to a less favorable assessment of current conditions. However, the closely watched **inflation expectations jumped sharply higher** (1-y ahead 4.9% from 4.5%, 5-10-y 3.9% from 3.4%). After Thursday's post-PPI rebound, **US yields in a steepening move added between 1.8 bps (2-y) to 4.6 bps (30-y)**. Markets again fully returned to a path of gradual Fed policy easing with a first 25 bps step in September and one additional move by the end of the year. A bit surprising/remarkable, **German bunds even underperformed US Treasuries** with yields rising between 2.7 bps (2-y) and 8.3 bps (30-y). The latter now decisively cleared the 2023 top, trading at the highest level since 2011. Markets pondering the (inflationary/reflationary) impact of an agreement for the war in Ukraine might have been in play. The 'better' US data again didn't help the dollar. DXY dropped from the 98.20 area to close near 97.85. EUR/USD returned to the 1.17 big figure.
- Asian markets take a constructive stance this morning**. The meeting between US president Trump and Russian president Putin this weekend at least kept all options open for Trump's meeting with Ukrainian President Zelensky and EU leaders today. US yields this morning are shifting to a wait-and-see stance after last week's rebound. The dollar still struggles to avoid further losses. **The eco calendar in the US and Europe is thin today**. Later this week, the August PMI's (Thursday) provide an update on the health of the economy, in EMU but also in the US. However, markets mainly look forward to Fed Powell's Jackson Hole address scheduled for Friday. Recent US data suggest it's too early for the Fed Chair to unequivocally open the door for aggressive further policy normalization yet. Even so markets will continue to look for any signs that the Fed is giving more weight to labour market softness rather than to (tariff-driven) inflation. Even as the pace of Fed easing is still subject to a high degree of uncertainty, **the dollar probably will remain in the defensive**. We also look out whether the negotiations (and hope on progress) regarding the war in Ukraine continues supporting EMU yields and/or the single currency.

News & Views

- UK **property website Rightmove** reported that average asking prices fell by 1.3% M/M in August to £368 740 (+0.3% Y/Y). That's more or less in line with annual summer lulls, but **follows on larger-than-usual price declines in June and July**. Affordability increases with one in three properties seen a price reduction since being listed and the number of houses for sale at a decade high (+10% Y/Y). Rightmove indicates that **"buyers have the upper hand in this high supply market, so a tempting price is vital to agree a sale"**. Lower lending rates thanks to the Bank of England's gradual policy normalization come in handy though the prospect for much more additional easing is limited.
- Indian PM Modi proposed changes to the consumption tax system introduced in 2017**. The next-Generation Goods and Services Tax is expected to take effect around the Hindu-festival of Diwali, in October. The current GST-structure with four main slabs (5%, 12%, 18% and 28%) will be replaced with a 5% rate for essential and common-use items, a 18% rate for stands goods and services and 40% for luxury and sin goods. **99% of the items who are currently in the 12% slab will move to the 5% one** and around 90% of the items currently taxed at 28% will move to 18%. Petroleum products remain outside the GST regime. The **simplified (and lower) tax regime will boost consumers' disposable income and reduces compliance burden for MSME's**. India's main equity index, Nifty 50 outperforms this morning, rising by 1.4%..

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.



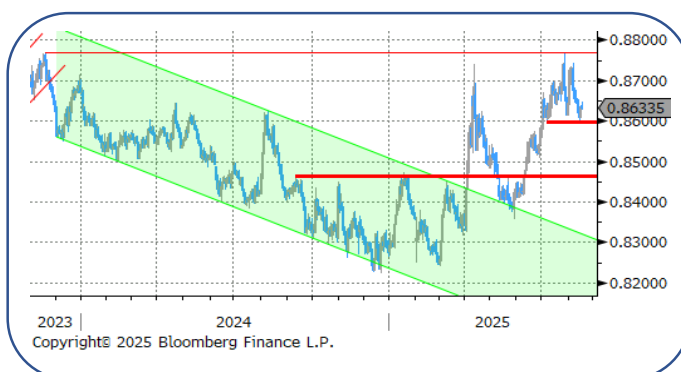
US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening**. Downward revisions in the July payrolls report boosted odds that the September FOMC meeting could be a tipping point. **LT bond yields' trend higher on President Trump's big, beautiful, deficit-increasing bill recently stalled on growth concerns**. This 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**. **EUR/USD is in a buy-the-dip pattern on track with a medium term target at 1.2349**. The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation.



EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on sterling earlier this year. The Bank of England is on a quarterly 25 bps cutting cycle since August of last year (4% policy rate currently), with next action expected in November. EUR/GBP tested the November 2023 high at 0.8768, but a break higher didn't materialize (yet).

Calendar & Table

Monday, 18 August		Consensus	Previous
US			
14:30	New York Fed Services Business Activity (Aug)	--	-9.3
16:00	NAHB Housing Market Index (Aug)	34	33
Japan			
6:30	Tertiary Industry Index MoM (Jun)	0.20%	0.60%
UK			
1:01	Rightmove House Prices MoM / YoY (Aug)	A: -1.3%/0.3%	-1.20%
EMU			
11:00	Trade Balance SA (Jun)	--	16.2b
Events			
18:45	Fed's Bowman Speaks on BTv		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,32	0,03		US	3,75	0,02	DOW	44946,12	34,86
DE	2,79	0,08		DE	1,97	0,03	NASDAQ	21622,98	-87,69
BE	3,31	0,09		BE	2,05	0,03	NIKKEI	43727,26	348,95
UK	4,70	0,05		UK	3,93	0,02	DAX	24359,3	-18,20
JP	1,58	0,01		JP	0,84	0,01	DJ euro-50	5448,61	13,91
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,21	3,43	3,71	€STR	1,9240	-0,0020			
5y	2,39	3,48	3,80	Euribor-1	1,9010	0,0270	SOFR-1	4,3555	-0,0038
10y	2,73	3,79	4,16	Euribor-3	2,0260	-0,0080	SOFR-3	4,2140	0,0120
				Euribor-6	2,1110	-0,0010	SOFR-6	4,0628	0,0173
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1703	0,0055		EUR/JPY	172,18	0,07	CRB	295,54	0,45
USD/JPY	147,19	-0,57		EUR/GBP	0,8636	0,0028	Gold	3382,60	-0,60
GBP/USD	1,3554	0,0022		EUR/CHF	0,9438	0,0033	Brent	65,85	-0,99
AUD/USD	0,6507	0,0012		EUR/SEK	11,1825	0,0172			
USD/CAD	1,3819	0,0002		EUR/NOK	11,9282	0,0245			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Shanghai	+86 21 68236128
		Hong Kong	+852 2525 9232
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague		Bratislava	
Jan Cermak	+420 2 6135 3578		+421 2 5966 8820
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Budapest	
Marek Gabris	+421 2 5966 8809		+36 1 328 99 85
K&H Economics – Markets Budapest			
David Nemeth	+36 1 328 9989		

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