



Wednesday, 20 August 2025

KBC Sunrise Market Commentary

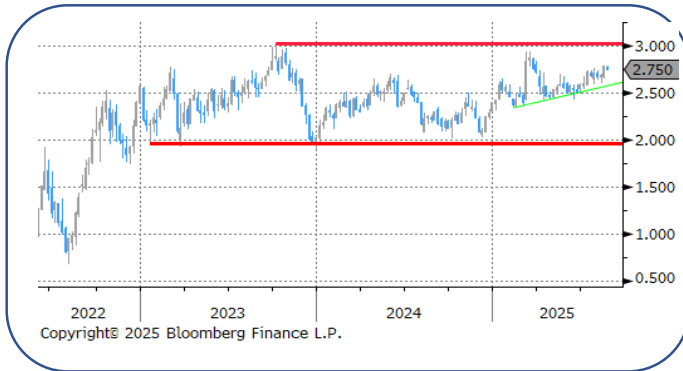
Markets

- Markets initially looked on track for yet another session of summertime technical trading yesterday, counting down to Friday's Jackson Hole address of Fed Chair Powell. **European equities outperformed** (EuroStoxx 50 +0.89%) as markets pondered progress in talks to end the war between Russia and Ukraine. (EMU) yields initially maintained recent gains. However, in US tech stocks fell prey to profit taking (Nasdaq -1.46%) during US dealings. In this **mild risk-off**, core bonds apparently attracted some safe haven flows. **Gains were modest though**. US yields eased between 1.5 bps (2-y) and 2.7 bps (10-y). German yields ceded up to 1.5 bps (30-y). Despite a slight loss of interest rate support and US equity underperformance (at least versus Europe), **the dollar finally gained on points** (DXY close 98.27; EUR/USD 1.1647). USD/JPY was exception to the rule (close 147.7 from 147.9). Most moves in the major USD cross rates still were technically irrelevant.
- Yesterday's correction in US tech stocks translates into red figures for most Asian equity markets this morning, with Taiwan, Korean and Japan underperforming. US yields are little changed as is the dollar. Later today, the eco calendar is again thin. Markets will look for some additional insights on the internal debate within the FOMC in the **Minutes of the July 30 Fed meeting**. However, after recent (payrolls and inflation) data and with markets looking forward to Jackson Hole, the minutes remain a bit of 'old news'. Fed Bostic moderates a conversion on the economic outlook, but already gave his (balanced) view last week. Even in case of a further technical correction in US equities, we expect the impact on core bond yields to remain limited ahead of Jackson Hole. We're also not convinced that a further correction in (US tech) stocks will be a big help for the dollar. The **Swedish Riksbank** is expected to keep its policy rate unchanged at 2.0%.
- UK July inflation** brought a first reality check after the hawkish BoE rate cut (August 07 meeting). UK July prices again printed on the higher side of expectations. Headline inflation rose 0.1% M/M to 3.8% Y/Y (from 3.6%). Core CPI also rose from 3.7% to 3.8%. Services inflation even accelerated from 4.7% to 5.0%. **Money markets recently already doubted whether the BoE would be able to continue policy normalization at the current quarterly 25 bps pace. Those doubts won't ease after today's data.** Sterling gains modestly immediately after the release (EUR/GBP 0.862). A revisit of the EUR/GBP 0.86 support area might be on the cards. However, sustained sterling gains probably need better growth rather than higher inflation-driven interest rate support.

News & Views

- The **Reserve Bank of New Zealand (RBNZ)** **lowered its policy rate** this morning as expected **by 25 bps to 3%**. It was a split vote (4-2) with two governors in favor of a larger, 50 bps, rate cut. **Inflation** is currently around the top of the 1%-3% target band, but **expected to return to 2% by mid-2026 due to spare capacity and declining domestic pressures**. The economic recovery stalled in Q2 with global policy uncertainty, falling employment, higher essential prices and declining house prices all contributing. The MPC indicates **scope for further OCR reductions if medium-term inflation pressures continue to ease** to help the economy and labour market. Updated projections for the policy rate suggest short term **potential towards 2.5% by Q1 of next year, compared with 2.75% in the May update**, before returning to a neutral 3% at the end of the policy horizon. NZ markets had to reposition to the softer tone from the RBNZ. The **NZD swap curve bull steepens** with yields falling by 8.7 bps (30-yr) to 17.2 bps (2-yr). **The kiwi dollar suffers a setback**, falling from NZD/USD 0.59 to 0.5825 and losing a first technical support zone (0.5878/47; 38% Ytd retracement & May low).
- Japanese exports fell by 2.6% Y/Y in value in July**, the steepest drop since February 2021. A downturn in cars, auto parts and steel is behind the drop. Export volumes rose by 1.2% Y/Y suggesting that Japanese companies bear the brunt of US tariffs. **Exports to the US dropped by 10.1% Y/Y** in value terms and by 3.2% Y/Y in volume terms. Japanese imports decreased by 7.5% Y/Y (value), mostly driven by energy. Despite this fall, **the Japanese trade balance still flipped from a JPY 152.1bn surplus in June to a JPY 117.5bn deficit in July**. The trade surplus with the US fell from JPY 669bn to JPY 585bn..

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. Still the market is keeping a close eye on public finances, putting a floor for LT yields.



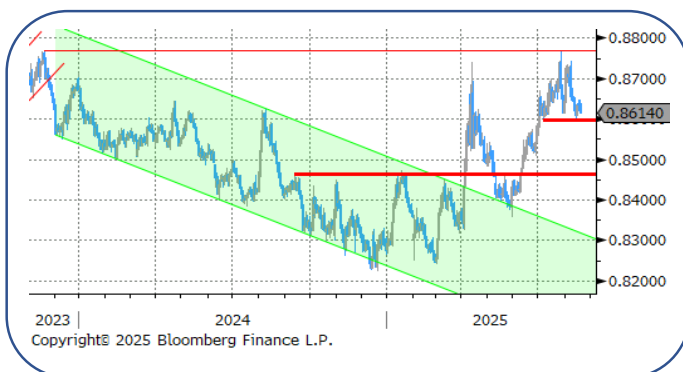
US 10y yield

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). Next action in November is becoming more uncertain due to persistent high inflation. EUR/GBP tested the November 2023 high at 0.8768, but a break higher didn't materialize (yet).

Calendar & Table

Wednesday, 20 August		Consensus	Previous
US			
20:00	FOMC Meeting Minutes		
Japan			
1:50	Exports YoY (Jul)	A:-2.60%	-0.50%
1:50	Imports YoY (Jul)	A:-7.50%	R:0.30%
UK			
8:00	CPI MoM / YoY (Jul)	0.00%/3.70%	0.30%/3.60%
8:00	CPI Core YoY (Jul)	3.70%	3.70%
8:00	CPI Services YoY (Jul)	4.80%	4.70%
EMU			
11:00	CPI MoM / YoY (Jul F)	0.00%/2.00%	0.00%/2.00%
11:00	CPI Core YoY (Jul F)	2.30%	2.30%
Germany			
8:00	PPI MoM / YoY (Jul)	0.10%/-1.30%	0.10%/-1.30%
China			
3:00	1-Year Loan Prime Rate	3.00%	3.00%
3:00	5-Year Loan Prime Rate	3.50%	3.50%
New Zealand			
4:00	RBNZ Official Cash Rate	A:3.00%	3.25%
Sweden			
9:30	Riksbank Policy Rate	2.00%	2.00%
Events			
9:10	ECB's Lagarde Speaks in Geneva		
11:30	Germany to Sell €1bn of 2.5% 2046 & €1.5bn of 2.5% 2054 Bonds		
17:00	Fed's Waller Speaks on Payment at Wyoming Blockchain Symposium		
21:00	Fed's Bostic in Moderated Conversation on Economic Outlook		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,31	-0,03		US	3,75	-0,01	DOW	44922,27	10,45
DE	2,75	-0,01		DE	1,96	0,00	NASDAQ	21314,95	-314,82
BE	3,28	-0,01		BE	2,03	0,00	NIKKEI	42915,83	-630,46
UK	4,74	0,00		UK	3,98	0,02	DAX	24423,07	108,30
JP	1,61	0,01		JP	0,85	0,00	DJ euro-50	5483,28	48,64
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	2,18	3,42	3,75	€STR	1,9250	0,0010			
5y	2,35	3,47	3,83	Euribor-1	1,9170	-0,0040	SOFR-1	4,3387	-0,0021
10y	2,69	3,78	4,19	Euribor-3	2,0340	0,0060	SOFR-3	4,2080	-0,0095
				Euribor-6	2,1090	-0,0020	SOFR-6	4,0531	-0,0173
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1647	-0,0014		EUR/JPY	171,99	-0,46	CRB	294,05	-1,97
USD/JPY	147,67	-0,22		EUR/GBP	0,8632	-0,0003	Gold	3358,70	-19,30
GBP/USD	1,3491	-0,0013		EUR/CHF	0,9407	-0,0008	Brent	65,79	-0,81
AUD/USD	0,6454	-0,0037		EUR/SEK	11,1734	0,0190			
USD/CAD	1,3868	0,0065		EUR/NOK	11,9729	0,0716			

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