

## Sunrise



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together.

Friday, 22 August 2025

# KBC Sunrise Market Commentary

## Markets

- With markets counting down to Jackson Hole, **US data yesterday didn't provide much need for Fed Chair Powell to commit to any aggressive further policy easing already at this stage.** US jobless claims and the Philly Fed Business outlook were a bit softer than expected but that was **more than counterbalanced by a big beat in the US August PMI.** With the composite measure PMI at 55.4, US business activity grew at the fastest pace this year and suggests strong Q3 growth (S&P global sees it consistent with 2.5% annualized growth). Solid growth was seen both for services activity (55.4) and manufacturing (53.3, 39 month high), also resulting in strong job creation. The report mentions **tariffs as a key driver of further costs increases**, both for the services and the manufacturing sector. The report concludes that *"combined with the upturn in business activity and hiring, the rise in prices signaled by the survey puts the PMI data more into rate hiking, rather than cutting, territory according to the historical relationship between these economic indicators and FOMC policy changes"*. The US yield curve bear flattened with yields adding between 4.6 bps (2-y) and 2.2 bps (30-y). Also Fed's Goolsbee in a Bloomberg interview at least showed some concerns on the recent up-tick in services inflation. After a less impressive (but still decent) EMU PMI, German yields added 3-4 bps across the curve. EUR/USD initially however in the mid 1.16 area, **but the dollar finally took the lead after the PMI's** (EUR/USD close 1.1606, DXY 98.62). The strong PMI report didn't help US equities with major indices again easing 0.35/0.50%. Oil trended higher (Brent \$67.6/b).
- Asian equities are trade mixed this morning. **The dollar extends yesterday rebound with EUR/USD drifting below the 1.16 big figure** as markets are looking for more specific guidance on Fed policy from Powell's Jackson Hole speech (4pm CET). The WSJ suggests that the core of Powell's speech might be **the Fed Chair commenting the conclusions of the 5-year review of the Fed policy framework.** The previous review was mainly focused on issues related to policy efficacy in a context of (too) low inflation and near zero policy rates. Amongst others, that review included an approach allowing a temporary overshoot of the 2% target. As such, changes/a reversal in the longer-term policy framework shouldn't have too much impact on day-to-day policy. Still, **a return to more balanced 2% inflation targeting contains somewhat of a more hawkish message.** If the Fed Chair touches on short-term policy, we also expect him to hold to a guarded, data-dependent approach. In such a scenario, **markets might turn more cautious on the chances for a September Fed rate cut.** (currently 70 % discounted). It could support the recent USD rebound. EUR/USD might correct somewhat further south in the EUR/USD 1.18/1.14 trading range. It's too early to draw any conclusions on the established USD downtrend yet.

## News & Views

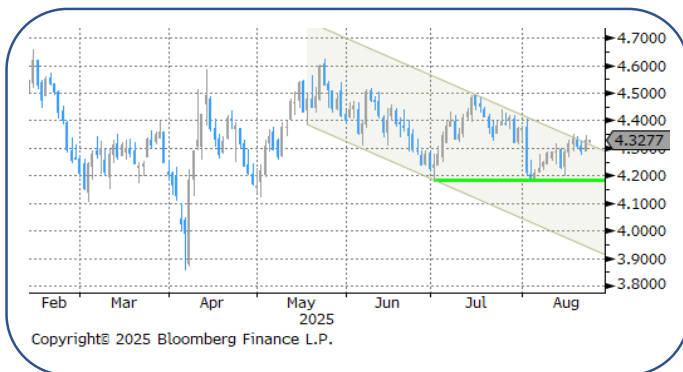
- National **Japanese inflation numbers for July** printed **broadly in line with expectations.** Both headline and core CPI (ex fresh food) rose by 0.1% M/M with both **annual readings slowing from 3.3% Y/Y to 3.1% Y/Y.** Stripping out energy as well, inflation held steady at 3.4% Y/Y. Services inflation also matched June's pace at 1.5% Y/Y. Sticky Japanese inflation above the BoJ's 2% inflation target suggest that the central bank might be lured into continuing its normalization (hiking) cycle at the **October 30 policy meeting**, when new quarterly projections will be released. Japanese money markets currently see a 50/50 chance of that happening.
- Market research firm GfK's UK consumer confidence indicator rose from -19 in July to -17 in August**, its best outcome since December. Especially **household sentiment over personal finances improved** (both last 12 months as next 12 months) with the Bank of England's latest rate cut contributing to the improving mood. GfK commented that there's no sense yet that consumer confidence is about to break out into fresher, more optimistic territory. It's more wait-and-see with rising inflation and potential tax increases in the autumn budget being downside risks in the (near) future....

## 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.



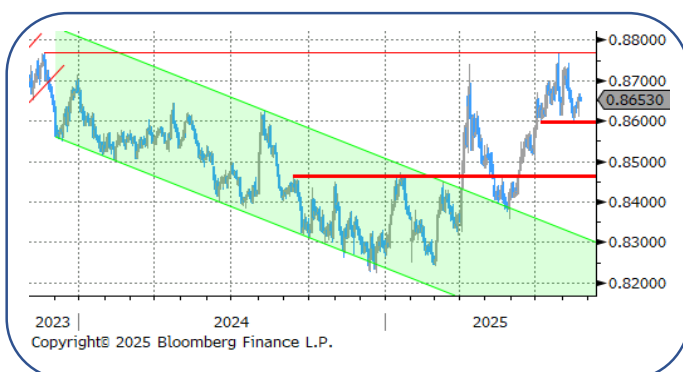
### US 10y yield

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

Friday, 22 August		Consensus	Previous
<b>Japan</b>			
1:30:	Natl CPI YoY (Jul)	A: 3.10%	3.30%
1:30:	<b>Natl CPI Ex Fresh Food YoY (Jul)</b>	<b>A: 3.10%</b>	<b>3.30%</b>
1:30:	Natl CPI Ex Fresh Food, Energy YoY (Jul)	A: 3.40%	3.40%
<b>UK</b>			
1:01:	GfK Consumer Confidence (Aug)	-19	-19
8:00:	<b>Retail Sales Ex Auto Fuel MoM / YoY (Jul)</b>	<b>0.40%/1.10%</b>	<b>0.60%/1.80%</b>
8:00:	Retail Sales Inc Auto Fuel MoM / YoY (Jul)	0.50%/1.30%	0.90%/1.70%
<b>EMU</b>			
11:00	<b>Negotiated Wages (2Q)</b>	--	<b>2.50%</b>
<b>Germany</b>			
8:00:	GDP SA QoQ / WDA YoY (2Q F)	-0.10%/0.40%	-0.10%/0.40%
<b>France</b>			
8:45:	Business Confidence (Aug)	97	96
8:45:	Manufacturing Confidence (Aug)	96	96
<b>Sweden</b>			
8:00	Unemployment Rate SA (Jul)	8.60%	8.30%
<b>Events</b>			
16:00	<b>Fed's Powell Speaks on Economic Outlook at Jackson Hole</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,33	0,04		US	3,79	0,04	DOW	44785,5	-152,81
DE	2,76	0,04		DE	1,97	0,04	NASDAQ	21100,31	-72,55
BE	3,30	0,05		BE	2,08	0,07	NIKKEI	42597,95	-12,22
UK	4,73	0,06		UK	3,97	0,05	DAX	24293,34	16,37
JP	1,62	0,01		JP	0,87	0,01	DJ euro-50	5462,16	-10,16
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	3,45	3,75	€STR	1,9260	0,0000			
5y	2,37	3,50	3,84	Euribor-1	1,8930	-0,0180	SOFR-1	4,3362	-0,0046
10y	2,71	3,80	4,20	Euribor-3	2,0260	-0,0080	SOFR-3	4,2282	0,0170
				Euribor-6	2,0770	-0,0160	SOFR-6	4,0953	0,0310
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1606	-0,0046		EUR/JPY	172,2	0,53	CRB	298,42	2,41
USD/JPY	148,37	1,04		EUR/GBP	0,8653	-0,0005	Gold	3381,60	-6,90
GBP/USD	1,3412	-0,0045		EUR/CHF	0,9386	0,0018	Brent	67,67	0,83
AUD/USD	0,642	-0,0014		EUR/SEK	11,1712	-0,0076			
USD/CAD	1,3911	0,0038		EUR/NOK	11,815	-0,1155			

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