



Tuesday, 26 August 2025

KBC Sunrise Market Commentary

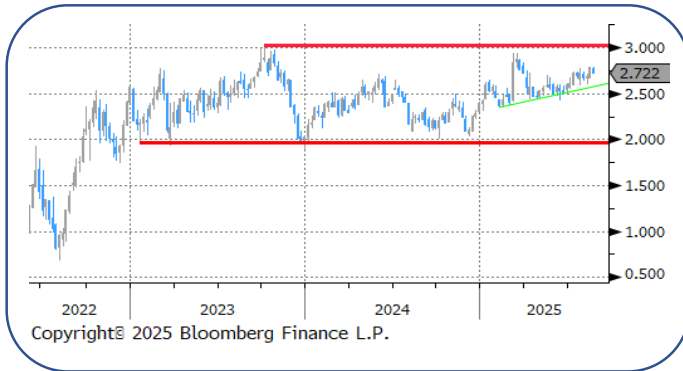
Markets

- The single currency's short-term fortunes took a dramatic turn yesterday following a surprise announcement by **French PM Bayrou**. He asked back French parliament by September 8 instead of October 1st and immediately tabled a **confidence vote in his minority government on fiscal plans** (outlined in July) to bring bloated public finances back on a sustainable trajectory. Bayrou's government is **at huge risk of collapsing**. If a vote of no confidence is called by the opposition, abstaining (eg Socialists) equals supporting the government. If the confidence vote is called by the government, abstaining doesn't count as a valid vote. So the majority of voting members decides the outcome with **the extreme right Rassemblement National and far-left leader Mélenchon already calling to vote against PM Bayrou**. RN Le Pen suggested **early elections** to break the deadlock from the current hung parliament. EUR/USD dropped from 1.17+ levels to the low 1.16 area after the announcement, erasing USD-losses triggered by Powell's dovish pivot in Jackson Hole on Friday. EUR/USD that way risks becoming **a balance of weakness** with the euro held back by rising French risk premia and the greenback vulnerable to loss of interest rate support in case of disappointing US eco data. Durable goods orders, housing data, the Richmond Fed manufacturing index and the conference board's consumer confidence are on tap today. The pair could as a result **extend its stay in this Summer's trading range between 1.1392 and 1.1829**. The **French 10y swap spread added 5 bps yesterday** (80 bps) with this year's high (88 bps) being the next target before possibly taking aim at the all-time (2011) high at 120 bps. German Bunds outperformed intraday, drawing safe haven flows when news broke. German yields still added 2.3 bps (30-yr) to 3.8 bps (5-yr) on a daily basis. **Risk assets corrected following Friday's (exaggerated) enthusiasm with key US and European indices losing up to 0.75% and the French CAC40 (-1.60%) underperforming**.
- The US dollar lost some ground overnight (EUR/USD 1.1640) after **US President Trump fired Fed governor Cook effective immediately** saying that false statement on mortgage agreements give him cause to fire her. Cook later disputed his authority, saying she won't quit. The episode **is a new low point in the president's attacks on the independent central bank**. It risks hurting the Fed's credibility if Trump manages to pack the Fed with people wanting to implement his low interest rate agenda. US Treasuries briefly spiked higher on the publication of Trump's letter. **Dallas Fed President Logan said that US money markets could face temporary pressures around quarter-end next month** suggesting that investors will likely tap the Fed's overnight facilities again as they did in June. She nevertheless believes that the Fed still has more room to reduce reserves (via balance sheet reduction)

News & Views

- UK BRC shop price inflation increased from 0.7% Y/Y in July to 0.9% Y/Y in August**, the fastest pace since March last year and well above the 3-m moving average of 0.6%. Non-food prices fell 0.8% Y/Y (from -1% in July), but food price inflation accelerated to 0.4% M/M and 4.2% Y/Y (from 4% in July). The Bank of England earlier this month indicated that **higher food prices are a potentially important driver for consumers' inflation expectations**. According to BRC, aside from an unfavorable supply-demand balance, the rise in shop prices is still driven by the **cost of government measures** flowing through to prices of households. **Markets question whether there will be room for the BoE to continue its gradual pace of quarterly rate cuts this year**.
- Belgian business leaders** turned more optimistic in August. **The business climate improved in the manufacturing and building industries but weakened slightly in the trade and business-related services sectors**. Business leaders in manufacturing (-10.5 from -13.5) assessed order books more positively, were more optimistic about demand expectations and for the third consecutive survey expect a rise in employment. Leaders in the building industry (-9.4 from -10.0) were more upbeat about the recent trend in equipment use and orders. Order books were assessed as being significantly weaker when considering the season, but they expect demand to pick up. A slight downturn for business-related services (-1.5 from -1.2) was due to softer expectations for both activity and general market demand, but the current level of activity was seen as more favorable than last month. Sentiment in trade also eased (-8.3 from -7.2). **The overall synthetic smoothed curve, which reflects the underlying economic trend, remains on an upward trajectory (-8.9 from -10.8)**.

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.



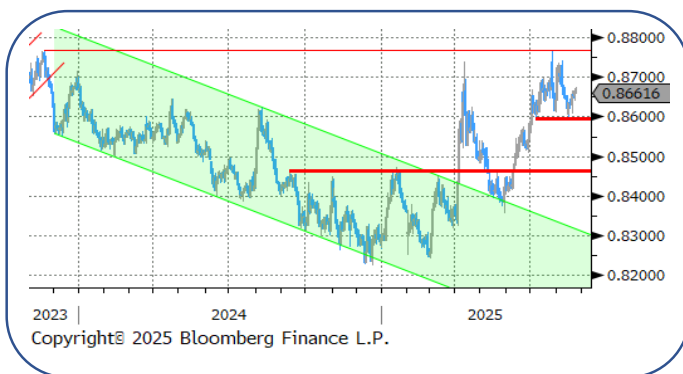
US 10y yield

Fed Chair Powell pivoted to supporting the labour market during his Jackson Hole speech. Downward revisions in the July payrolls earlier boosted odds that the September FOMC meeting could be a tipping point. **LT bond yields' are in limbo with President Trump's big, beautiful, deficit-increasing bill calling for a return of (higher) term premia.**



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 Fed restarting its normalization cycle in Q4 will deprive the greenback from interest rate support. 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

Tuesday, 26 August		Consensus	Previous
US			
14:30	Philadelphia Fed Non-Manufacturing Activity (Aug)	--	-10.3
14:30	Durable Goods Orders (Jul P)	-3.80%	-9.40%
14:30	Durables Ex Transportation (Jul P)	0.20%	0.20%
14:30	Cap Goods Orders Nondef Ex Air (Jul P)	0.20%	-0.80%
14:30	Cap Goods Ship Nondef Ex Air (Jul P)	0.20%	0.30%
15:00	FHFA House Price Index MoM (Jun)	-0.10%	-0.20%
15:00	House Price Purchase Index QoQ (2Q)	--	0.70%
15:00	S&P CoreLogic CS 20-City MoM SA / YoY NSA (Jun)	-0.20%/2.09%	-0.34%/279%
16:00	Richmond Fed Manufact. Index (Aug)	-11	-20
16:00	Richmond Fed Business Conditions (Aug)	--	-8
16:00	Conf. Board Consumer Confidence (Aug)	96.5	97.2
16:00	Conf. Board Present Situation (Aug)	--	131.5
16:00	Conf. Board Expectations (Aug)	-	74.4
16:30	Dallas Fed Services Activity (Aug)	--	2
Japan			
1:50	PPI Services YoY (Jul)	2.90%A	3.20%
UK			
1:01	BRC Shop Price Index YoY (Aug)	0.90%A	0.70%
France			
8:45	Consumer Confidence (Aug)	--	89
Events			
1:15	Fed's Williams Gives Keynote Remarks		
3:30	RBA Minutes of Aug. Policy Meeting		
6:01	Fed's Barkin Repeats Remarks on the Economy		
9:30:	Riksbank Minutes From Monetary Policy Meeting		
11:00	Italy to Sell Up to €3bn of 2.1% 2027 Bond		
12:45	ECB's Villeroy Speaks in Bordeaux		
16:00	BOE's Mann, Remarks and Panel		
19:00	US to Sell \$69bn 2-yr Notes		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4.28	0.02		US	3.72	0.03	DOW	45282.47	-349.27
DE	2.76	0.04		DE	1.98	0.03	NASDAQ	21449.29	-47.25
BE	3.33	0.07		BE	2.08	0.03	NIKKEI	42396.76	-411.06
UK	4.69	0.00		UK	3.94	0.00	DAX	24273.12	-89.97
JP	1.63	0.00		JP	0.87	0.00	DJ euro-50	5443.96	-44.27
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	3.38	3.74	€STR	1.9250	-0.0010			
5y	2.37	3.42	3.82	Euribor-1	1.8810	-0.0080	SOFR-1	4.3202	-0.0084
10y	2.71	3.75	4.17	Euribor-3	2.0210	0.0040	SOFR-3	4.2100	0.0076
				Euribor-6	2.0700	0.0130	SOFR-6	4.0570	0.0143
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1618	-0.0100		EUR/JPY	171.7	-0.49	CRB	301.71	1.71
USD/JPY	147.8	0.86		EUR/GBP	0.8636	-0.0029	Gold	3417.50	-1.00
GBP/USD	1.3455	-0.0070		EUR/CHF	0.9365	-0.0029	Brent	68.80	1.07
AUD/USD	0.6482	-0.0008		EUR/SEK	11.1413	0.0128			
USD/CAD	1.386	0.0034		EUR/NOK	11.7659	-0.0320			

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