Wednesday, 27 August 2025

KBC Sunrise Market Commentary

Markets

- **US President Trump's unprecedented attack against the US Federal Reserve is heading for court.** On Monday, he removed Fed governor Cook effective immediate for cause (related to mortgage fraud insinuations). Governor Cook refused, but if court rules that the President gets to define "cause", it **nullifies all protection for the independent US central bank.** Trump is trying to stack the Washington board with his own nominees, just they way he flipped the US supreme court during his previous tenure. On social media, he already bragged about **nearly achieving a majority.** Fed Waller and Bowman – the two dissenters in favour of a July rate cut – were nominated during his first term. Fed Miran, known for advocating a weaker dollar and reciprocal tariffs and for criticizing Fed chair Powell, was nominated earlier this month to replace Fed Kugler who resigned unexpectedly. Now Trump's after Fed Cook while next year Powell's spot is due. The Fed board has authority over regional Fed governors (5 out of 12 votes within FOMC) creating room for legal force as well. **Financial markets currently keep a blind eye for the huge tail risk of a politically-driven US central bank.** If Trump succeeds, **the very long end of the US yield curve will become even more vulnerable.** The harder he pushes for lower (short term) rates, the bigger the potential sell-off at the very long end of the curve with inflation expectations adding to already rising term premia. In such scenario, the greenback is at risk of being dealt another significant blow.

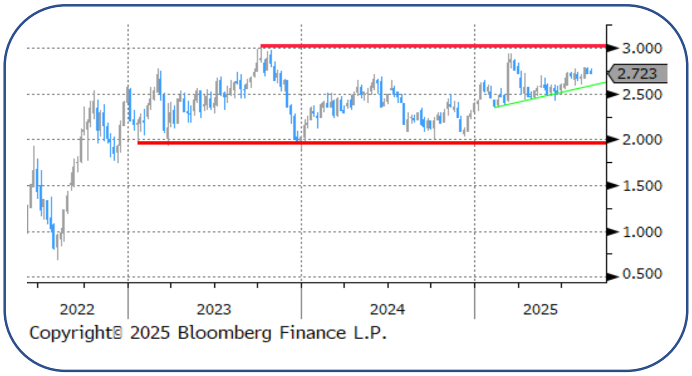
- In Europe, **French tail risk lingers** with PM Bayrou expected to lose a confidence vote on September 8. It prevents the euro from exploiting USD-weakness (EUR/USD 1.1620) with European stock markets yesterday losing up to 1% (CAC 40 down 1.4%). US eco data were slightly better than expected yesterday (US durable goods orders, Richmond Fed manufacturing index, consumer confidence) but without impacting the market. **Details from the Conference Board consumer survey showed rising worries about jobs and income offset more optimistic views of current and future business conditions.** Consumers' average 12-month inflation expectations picked up after three consecutive months of easing and reached 6.2% in August - up from 5.7% in July but still below the April peak of 7.0%. The US Treasury's end-of-month refinancing operation started with **a strong $69bn 2-yr Note auction with Powell's dovish pivot in Jackson Hole supporting demand.** Today's eco calendar is empty apart from a $70bn 5-yr Note sale suggesting political event risk (US, France) and Nvidia earnings (after close) to set the tone for risk sentiment/trading.

News & Views

- **Australian inflation rose from 1.9% in June to 2.8% In July.** Underlying measures also accelerated substantially. The rimmed mean measure increased from 2.1% to 2.7%. CPI excluding volatile items and holiday travel rose 3.5% Y/Y , up from 2.5% in June. **A monthly rise in electricity price of 13% M/M was a main driver for the jump in overall inflation** as consumer in two states didn't receive payments on an extended energy relief bill. However, also price rises due to the annual electricity prices review came into effect. On the other hand, **rents rose 3.9% Y/Y, down from 4.9% in June and the lowest annual rise since November 2022.** Monthly holiday travel and accommodation prices rose 4.7% M/M and 3.3% Y/Y in July after a 3.7% Y/Y decline in June. **The rise in some volatile times** suggests that some of it might be **reversed in coming months.** Even so, today's data suggest that the RBA might hold to a pace of gradual policy normalization. The RBA cut its policy rate by 25 bps to 3.60% earlier this month and is only expected to make a next step in November. The 3-y government bond yield this morning rose 2.6 bps to 3.43%. AUD/USD hardly changed (0.6485).

- **Bank of Canada governor Macklem in a speech indicated that the central bank aims to maintain its inflation target at 2%** (mid of the 1%-3% target range) when the monetary policy framework comes up for revision next year. In an uncertain and unpredictable world, it is not the time to question the target. However, the BOC is examining best ways to measure core inflation and also how to cope with housing cost when it sets monetary policy. In a context of supply shocks and greater volatility in inflation (amongst other due to US tariffs), **the BoC will examine whether it is best to look at a broader rather than a narrow range of core inflation indicators.**

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

Wednesday, 27 August		Consensus	Previous
UK			
12:00	CBI Total Dist. Reported Sales (Aug)	--	-39
12:00	CBI Retailing Reported Sales (Aug)	--	-34
Germany			
8:00	GfK Consumer Confidence (Sep)	-21.5	-21.5
China			
3:30	Industrial Profits YoY (Jul)	-1.5%A	-4.30%
Events			
6:01	Fed's Barkin Makes Remarks on the Economy		
11:30	Germany to Sell €4bn of 2032 Bonds		
17:30	US to Sell $28bn 2-yr FRN Reopening		
19:00	**US to Sell $70bn 5-yr Notes**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.26	-0.01		**US**	3.68	-0.04	**DOW**	45418.07	135.60
DE	2.72	-0.03		**DE**	1.94	-0.04	**NASDAQ**	21544.27	94.98
BE	3.30	-0.04		**BE**	2.06	-0.03	**NIKKEI**	42500.68	106.28
UK	4.74	0.05		**UK**	3.97	0.02	**DAX**	24152.87	-120.25
JP	1.63	0.00		**JP**	0.87	-0.01	**DJ euro-50**	5383.68	-60.28

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.16	3.33	3.76	**€STR**	1.9260	0.0010			
5y	2.33	3.38	3.85	**Euribor-1**	1.8810	0.0000	**SOFR-1**	4.3115	-0.0087
10y	2.68	3.73	4.21	**Euribor-3**	2.0220	0.0010	**SOFR-3**	4.1898	-0.0202
				Euribor-6	2.0640	-0.0060	**SOFR-6**	4.0330	-0.0240

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1642	0.0024	**EUR/JPY**	171.6	-0.10	**CRB**	298.46	-3.25
USD/JPY	147.4	-0.40	**EUR/GBP**	0.8637	0.0001	**Gold**	3433.00	15.50
GBP/USD	1.348	0.0025	**EUR/CHF**	0.9353	-0.0012	**Brent**	67.22	-1.58
AUD/USD	0.6495	0.0013	**EUR/SEK**	11.1281	-0.0132			
USD/CAD	1.3839	-0.0021	**EUR/NOK**	11.7914	0.0255			

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