



## Sunrise



Thursday, 28 August 2025

# KBC Sunrise Market Commentary

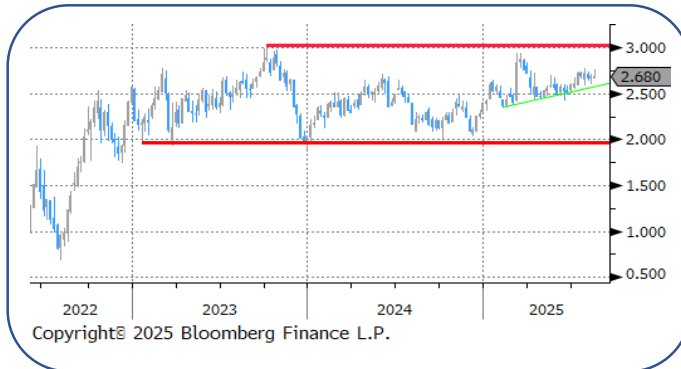
## Markets

- **Markets continued digesting this week's mainly political event risk coming from the US and France.** The US yield curve **bull steepened** with yields around 5 bps lower at the front end of the curve and broadly flat at the very long end. Apart from Fed Powell's dovish pivot in Jackson Hole, markets start pricing the **event risk in which US President Trump succeeds in ousting Fed governor Cook**, setting a dangerous precedent and winning him a majority on the Washington Fed Board. The overarching aim is to **keep policy rates low to help fund bloating public finances**. In light of recent events, we wonder whether **tomorrow's PCE deflators (July)**, given risks for an upward surprise, will even matter to markets. The dies are cast for September (25 bps rate cut) it seems with markets **starting to err on the side of consecutive moves lower**. Next week's **payrolls** report will be scrutinized for any signs of weakness. The dollar suffered a backlash during US trading hours on Treasuries' outperformance, erasing earlier gains on the back of a weak euro: EUR/USD went back and forth between roughly 1.1640 and 1.1580. **Underperformance of French OAT's pushed the 10-yr French swap spread to 86 bps** (88 bps Ytd high early January) **and weighs on the single currency**. The spread added 10 bps since PM Bayrou announced the doomed-to-lose confidence vote over fiscal plans spelled out in July. New parliamentary elections are becoming ever more likely, but possibly unable to resolve the current paralysis in French politics while huge budget deficits and the spiraling debt ratio call for action. French OAT's are now even converging to Italian BTP's (10-yr BTP swap spread at 91 bps).
- Revisions to the second quarter US GDP number and weekly jobless claims feature today's agenda, but won't impact markets. Accounts of the ECB's July policy meeting could further close the door for another rate cut later this year. The US Treasury end its refinancing operation with a \$44bn 7-yr Note sale. Yesterday's 5-yr sale tailed slightly after a strong 2-yr deal on Tuesday. **Lingering themes exploited above will continue to set the tone for both risk sentiment and overall trading**. AI-bellwether Nvidia published good results after market close yesterday. It's shares currently correct 2.75% lower in after-market trading. This contained reaction suggests limited spill-over to general sentiment.

## News & Views

- **The Bank of Korea as expected left its policy rate unchanged for a second consecutive meeting this morning at 2.5%.** The decision was taken by a 6-1 vote, with **one member dissenting in favour of 25 bps rate cut**. Regarding domestic economic growth, the BoK indicates that growth has improved due to a recovery in consumption and due to a better than expected increase in exports. **Demand is expected to support a modest recovery**. Exports might gradually slow due to the impact of US tariffs. The BoK upwardly revised its growth outlook for this year to 0.9% from 0.8%. The outlook for next year was left unchanged at 1.6%. CPI inflation was 2.1% in July and core inflation 2%. **CPI inflation is expected at 2% this year. Overall and core CPI are seen at 1.9% next year**, slightly up from the previous forecast of 1.8%. The Board will maintain its rate cut stance with **governor Rhee saying that 5 of the 6 members are open to a rate cut in the next three months**. At the same time, the BoK further assesses financial stability issues related to the housing price appreciation in the Seoul area and household debt growth, even as those issues have moderated of late. The won this morning gained modestly to USD/KRW 1387, but holds its recent consolidation pattern.
- **The Dutch caretaker government of PM Dick Schoof survived a no-confidence vote in Parliament yesterday.** Only two smaller parties supported the no-confidence motion. However, even the after this vote **the political deadlock in the country persists**. The caretaker government has the **support of 32 of the 150 seats in Parliament**. In this respect, the cabinet needs relies on parliament on a case by case basis in the upcoming period toward **snap elections scheduled for October 29**. However, even after those elections, it might still be complicated to form a new government due to political fragmentation. For now, there was only a limited rise in the credit spread of the Netherlands over Germany (currently 19 bps).

## 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.



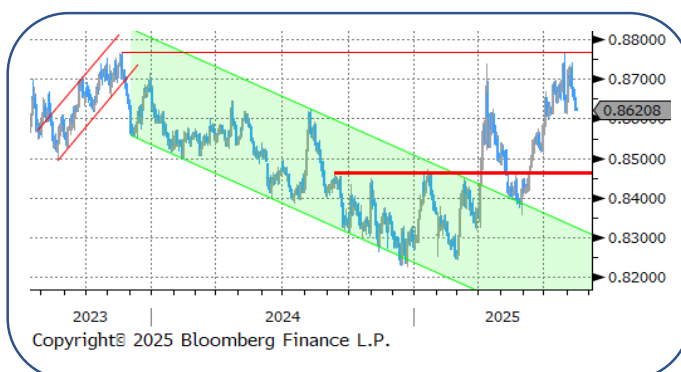
### US 10y yield

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

Thursday, 28 August		Consensus	Previous
<b>US</b>			
14:30	GDP Annualized QoQ (2Q S)	3.10%	3.00%
14:30	Initial Jobless Claims	230k	235k
14:30	Initial Claims 4-Wk Moving Avg	--	226.25k
14:30	Continuing Claims	1966k	1972k
16:00	Pending Home Sales MoM / NSA YoY (Jul)	0.20%/0.10%	-0.80%/-0.30%
17:00	Kansas City Fed Manf. Activity (Aug)	1	1
<b>Canada</b>			
14:30	Payroll Employment Change - SEPH (Jun)	--	15.3k
<b>EMU</b>			
6:00	EU27 New Car Registrations (Jul)	7.40%A	-7.30%
10:00	M3 Money Supply YoY (Jul)	3.50%	3.30%
11:00	Consumer Confidence (Aug F)	--	-15.5
<b>Italy</b>			
10:00	Economic Sentiment (Aug)	--	93.6
<b>Belgium</b>			
15:00	CPI MoM / YoY (Aug)	--/--	0.49%/1.92%
<b>Events</b>			
10:00	ECB's Olli Rehn Speaks at Europe Forum in Turku, Finland		
11:00	Italy to Sell Bonds		
13:30	ECB Publishes Account of July 23-24 Rate Decision		
19:00	US to Sell \$44bn 7-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	4.23	-0.03		US	3.61	-0.07	DOW	45565.23	147.16
DE	2.70	-0.02		DE	1.92	-0.02	NASDAQ	21590.14	45.87
BE	3.29	-0.01		BE	2.03	-0.02	NIKKEI	42818	297.73
UK	4.74	0.00		UK	3.96	0.00	DAX	24046.21	-106.66
JP	1.62	0.00		JP	0.86	-0.01	DJ euro-50	5393.07	9.39
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	2.13	3.29	3.76	€STR	1.9250	-0.0010			
5y	2.30	3.33	3.84	Euribor-1	1.8670	-0.0140	SOFR-1	4.3006	-0.0109
10y	2.66	3.70	4.20	Euribor-3	2.0320	0.0100	SOFR-3	4.1832	-0.0065
				Euribor-6	2.0620	-0.0020	SOFR-6	4.0212	-0.0119
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1.1639	-0.0003		EUR/JPY	171.59	-0.01	CRB	300.74	2.28
USD/JPY	147.42	0.02		EUR/GBP	0.8622	-0.0015	Gold	3448.60	15.60
GBP/USD	1.3498	0.0018		EUR/CHF	0.9339	-0.0014	Brent	68.05	0.83
AUD/USD	0.6506	0.0011		EUR/SEK	11.0969	-0.0312			
USD/CAD	1.3791	-0.0048		EUR/NOK	11.7337	-0.0577			

## 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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