Monday, 01 September 2025

KBC Sunrise Market Commentary

Markets

- Friday's US July PCE inflation gauges printed bang in line with expectations. Lacking signs of tariff-related inflationary pressures, they basically vindicated Fed chair Powell paving the way for a first rate cut in a year at this month's meeting. A softer Chicago PMI and a downward revision in the US Michigan consumer survey's inflation expectation gauges added to the US yield curve steepening. Net daily changes varied between -1.3 bps (2-yr) to +5.2 bps (30-yr). European rates followed the same curve movement, adding up to 3.8 bps at the long end. The first national inflation readings (Germany, France, Spain) suggest little to no surprises to tomorrow's EMU print expected at 2%. That allows the ECB to stick to the sidelines for some time to come with its 2% deposit rate. The euro tried to capitalize on some dollar weakness that prevailed in the early US trading hours with EUR/USD pushing for the 1.17 barrier. The move lacked strength and conviction, perhaps due to the long weekend ahead in the US (markets closed today for Labour Day), but the pair is giving it another shot this morning (1.1714). **A federal appeals court late Friday found that US president Trump had gone too far in his use of emergency powers**, mostly under the veil of national security, to install his signature import tariffs. It gave the US administration a mid-October deadline to appeal to the Supreme Court before the ruling takes effect. It's considered the most consequential ruling so far but comes along with several other judges having concluded that the president is acting without legal support. **It's one of the legal themes to keep an eye at**, the other one being Trump vs Cook. Friday's emergency hearing on the firing of the Fed board governor came with no initial ruling though. Stock markets ended Friday on softer footing. The main European and US indices (especially tech) printed losses up to 1%.

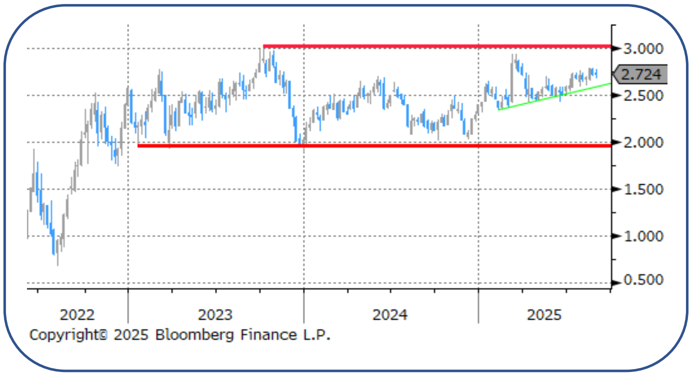
- With US investors lacking and an uninspiring economic calendar elsewhere, including the euro area, trading is likely to be technically inspired. That'll change starting tomorrow though. **The US offers an important economic update**, kicking off with the manufacturing ISM for August. The JOLTS job report is due Wednesday, the services ISM and ADP job report on Thursday and the official payrolls on Friday. After Powell's pivot at Jackson Hole, markets are probably especially vulnerable for downside surprises in anything related to the labour market. That would trigger additional dovish repositioning (eg. from two to three rate cuts this year) in US markets, weighing on front-end yields and the dollar. The European focus is mainly directed towards France, where the **vote of no confidence** is drawing near (September 8). The OAT/swapspread is on our radar.

News & Views

- **South Korean August trade data showed export growth of 1.3% Y/Y in August, showing no harm so far from the higher reciprocal tariff rate installed by the US in July (15%).** Semiconductor exports jumped by 27% with vehicle shipments rising by 9%. It will be interesting to see if export momentum holds going into year-end. The US Commerce Department complicated things on Friday by saying that it will revoke a waiver (in 120 days) for South Korean companies Samsung and SK Hynix to use US technologies in their Chinese operations. These regulations allowed them to import chipmaking equipment without applying for a new license each time ("validated end user"). South Korean imports fell by 4% Y/Y with the trade surplus slightly narrowing from $6.6bn to $6.5bn.

- **EC president von der Leyen said that the EU's $150bn SAFE programme reached full subscription.** Under the programme, cash will be borrowed against the EU budget to member states to jointly spend on military purchases. Those are mainly EU manufactured products with the EU imposing clauses that limit the amount of third-country components. The EC will now review the bids and optimize the distribution of the funds. **Initial disbursements could already begin this year.**

Graphs



GE 10y yield

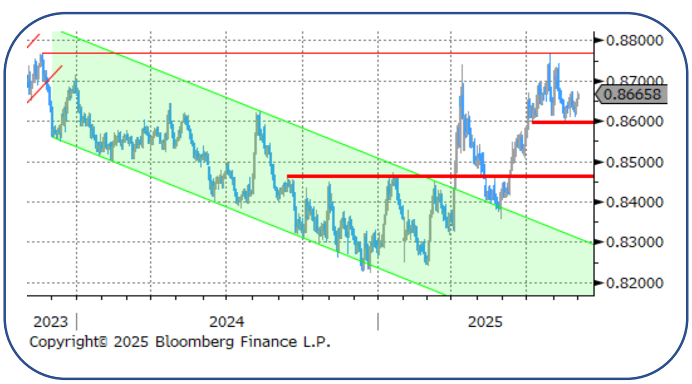
Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2%, reaching neutral territory.** The ECB moved to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to 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

Monday, 01 September		Consensus	Previous
Japan			
1:50	Capital Spending YoY (2Q)	7.60%A	6.40%
1:50	Capital Spending Ex Software YoY (2Q)	5.20%A	6.90%
1:50	Company Sales YoY (2Q)	0.80%A	4.30%
1:50	Company Profits YoY (2Q)	0.200%A	3.80%
2:30	S&P Global Japan PMI Mfg (Aug F)	49.7A	49.9
UK			
10:30	Net Consumer Credit (Jul)	1.3b	1.4b
10:30	Mortgage Approvals (Jul)	64.0k	64.2k
10:30	Money Supply M4 MoM/YoY (Jul)	--/--	0.30%/3.30%
10:30	S&P Global UK Manufacturing PMI (Aug F)	47.3	47.3
8:00	Nationwide House PX MoM/NSA YoY (Aug)	0.10%/2.70%	0.60%/2.40%
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Aug F)	50.2	50.5
11:00	Unemployment Rate (Jul)	6.20%	6.20%
Italy			
10:00	Unemployment Rate (Jul)	--	6.30%
9:45	HCOB Italy Manufacturing PMI (Aug)	49.8	49.8
Belgium			
11:00	Unemployment Rate (Jul)	--	6.50%
China			
3:45	**RatingDog China PMI Mfg (Aug)**	**50.5A**	**49.5**
Spain			
9:15	HCOB Spain Manufacturing PMI (Aug)	52.1	51.9
Sweden			
8:30	Swedbank/Silf PMI Manufacturing (Aug)	--	54.2
Events			
01SEP	**US financial markets closed for Labour Day**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.23	0.03		US	3.62	-0.01	DOW	45544.88	-92.02
DE	2.72	0.03		DE	1.94	0.01	NASDAQ	21455.55	-249.61
BE	3.30	0.04		BE	2.06	0.01	NIKKEI	42135.97	-582.50
UK	4.72	0.02		UK	3.94	0.01	DAX	23902.21	-137.71
JP	1.62	0.02		JP	0.88	0.01	DJ euro-50	5351.73	-45.00
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.14	3.29	3.74	€STR	1.9200	-0.0050			
5y	2.31	3.33	3.83	Euribor-1	1.8590	-0.0040	SOFR-1	4.2687	-0.0129
10y	2.66	3.69	4.19	Euribor-3	2.0610	0.0140	SOFR-3	4.1609	-0.0106
				Euribor-6	2.0740	0.0050	SOFR-6	4.0069	-0.0121
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1686	0.0003		EUR/JPY	171.86	0.19	CRB	302.35	0.60
USD/JPY	147.05	0.12		EUR/GBP	0.8655	0.0009	Gold	3516.10	41.80
GBP/USD	1.3504	-0.0009		EUR/CHF	0.9355	-0.0006	Brent	67.48	-0.50
AUD/USD	0.654	0.0008		EUR/SEK	11.0553	-0.0173			
USD/CAD	1.3741	-0.0008		EUR/NOK	11.7566	-0.0053			

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
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		**Bratislava**	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		**Budapest**	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at www.kbceconomics.be