



Thursday, 04 September 2025

KBC Sunrise Market Commentary

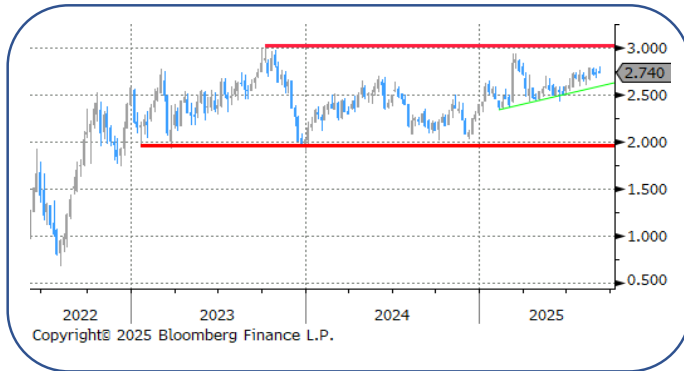
Markets

- Core bonds entered calmer water after the sharp declines on Tuesday, driven by a spike in fears for unsustainable public finances. **UK gilts were in markets' crosshairs back then but outperformed yesterday.** Yields eased up to 9 bps at the very long end of the curve. Shorter tenors lagged behind, weighed down by an overall hawkish appearance from BoE policymakers, including governor Bailey, before UK parliament. It basically confirmed the central bank's already slow easing pace – a quarterly 25 bps – is to shift into even lower gear. US yield changes varied between -2.3 (2-yr) to -6.5 bps (30-yr). Treasuries noticed the **July JOLTS reports** missing expectations. It came in at 7.18mln vs 7.38mln expected and from a downwardly revised 7.36mln in June. German bunds joined the overall move. Yields slipped 0.8-5 bps in a bull flattener. Japanese yields still shot up 7 bps in a catch-up move but JGBs are better bid this morning. Demand for a closely watched 30-year auction this morning certainly helped. Damage for the US dollar could have been bigger given the US yield moves. EUR/USD rebounded from the intraday lows to end the day around 1.166. The pair remains trapped within a tight sideways trading range. Since August it even narrowed further to just 1 big figure, give or take (1.16-1.17). Along with gilts came some (minor) GBP outperformance as well. EUR/GBP retreated from the 0.871 area to 0.8675. Calm returned to stock markets too. The likes of the Nasdaq rose 1%. That spills over into Asian dealings this morning, except in China (see below). The US dollar has a slight upper hand over most G10 peers going into another round of interesting economic data. **The August ADP job report is due ahead of tomorrow's official payrolls.** Job creation is expected at 68k, a deceleration from July's 104k. The **US services ISM** is also scheduled for release. The headline figure is seen at 51, picking up slightly from 50.1. From Tuesday's manufacturing ISM and yesterday's market reaction to (a lagging) JOLTS job report reveal a high sensitivity for the employment component (expected at 46.7 from 46.4). Downside surprises will further **add to market bets for three consecutive rate cuts at each of the remaining 2025 Fed policy meetings** and could pressure short-term US yields. The 2-yr rate is near first support at 3.6% with the 3.43%-3.5% area seen in the aftermath of Liberation Day serving as the next references. EUR/USD in that case has scope to move higher, be it within the established trading range.

News & Views

- China's financial regulators are rumoured to introduce a number of cooling measures for the stock market.** They include the removal of some short selling curbs and options to rein in speculative trading. Securities Regulatory Commission Chairman Wu Qinq **pledged to consolidate the positive momentum of the market while promoting long-term value and rational investing.** Policy officials turned skeptical about the speed of the rally of Chinese stock markets since early August. **With the 2015 boom-bust in mind, they want to avoid steep losses especially for retail investors.** Regulators have already drafted the nation's financial institutions to help achieve that goal. Banks need to investigate the use of credit funds in stock markets or cut the leverage for margin traders while brokerages need to tone down their aggressive marketing campaigns. The main Chinese equity benchmarks correct 1% to 2% lower this morning. The Shanghai composite reached a new decade high at the end of August with the CSI 300 trading at best levels since early 2022 before the correction kicked in.
- The Fed's Beige Book, a survey of regional business contacts and a preparatory document for the FOMC meeting, showed little or no change in economic activity** since the previous reporting period in most of the 12 Fed districts. Across districts, contacts reported flat to declining consumer spending because, for many households, **wages were failing to keep up with rising prices. Nearly all districts noted tariff-related price increases,** with contacts from many districts reporting that tariffs were especially impactful on the prices of inputs. Interesting in light of Fed Chair Powell's pivot in Jackson Hole: eleven districts described little or no net change in overall employment levels, while one district described a modest decline.

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. It merely slowed the rise in LT yields with the ongoing public finances narrative keeping the upward trajectory in tact.



US 10y yield

The Fed's **focus since Jackson Hole has shifted with increased attention for (risks to) the labour market.** Downward revisions in the July payrolls report boosted odds that the September FOMC meeting could be a tipping point. The budgetary impact of **President Trump's big, beautiful bill moved to the background for the time being. The offsetting impact of rising revenues (tariffs) and growth concerns instead pushed LT yields to the summer low's.**



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 but is offset by short-term political (France) uncertainty.



EUR/GBP

Long end Gilt underperformance due to fiscal risks continues to weigh on sterling. The Bank of England cut rates to 4% in August but sticky inflation (rather than exceptional growth) probably means an even slower easing pace (than 25 bps quarterly) from now on. It's not the kind of rate support that helps sterling. EUR/GBP holds near the recent highs with the July high at 0.8769 serving as first resistance.

Calendar & Table

Thursday, 04 September		Consensus	Previous
US			
14:15	ADP Employment Change (Aug)	68k	104k
14:30	Initial Jobless Claims	230k	229k
14:30	Continuing Claims	1959k	1954k
14:30	Trade Balance (Jul)	-\$77.9b	-\$60.2b
14:30	Exports/Imports MoM (Jul)	--/--	-0.50%/-3.70%
16:00	ISM Services Index (Aug)	51.0	50.1
16:00	ISM Services Prices Paid (Aug)	69.5	69.9
16:00	ISM Services New Orders (Aug)	51.1	50.3
16:00	ISM Services Employment (Aug)	46.7	46.4
UK			
10:30	DMP 3M Output Price Expectations (Aug)	--	3.70%
10:30	DMP 1 Year CPI Expectations (Aug)	--	3.20%
EMU			
11:00	Retail Sales MoM/YoY (Jul)	-0.30%/2.30%	0.30%/3.10%
Czech Republic			
9:00	CPI MoM/YoY (Aug P)	0.10%/2.50%	0.50%/2.70%
Sweden			
8:00	CPI MoM/YoY (Aug P)	0.40%/1.10%	0.20%/0.80%
8:00	CPIF MoM/YoY (Aug P)	-0.30%/3.20%	0.30%/3.00%
8:00	CPIF Excl. Energy MoM/YoY (Aug P)	-0.50%/3.10%	0.20%/3.20%
Events			
05:35	Japan to Sell 30-Year Bonds		
10:50	France to Sell Bonds		
11:30	ECB's Cipollone Speaks in EU Parliament		
17:30	Fed's Williams Speaks on Economic Outlook and Monetary Policy		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.22	-0.04		US	3.62	-0.02	DOW	45271.23	-24.58
DE	2.74	-0.05		DE	1.97	-0.01	NASDAQ	21497.73	218.10
BE	3.32	-0.05		BE	2.09	-0.01	NIKKEI	42551.29	612.40
UK	4.75	-0.05		UK	3.96	-0.02	DAX	23594.8	107.47
JP	1.61	-0.02		JP	0.85	-0.02	DJ euro-50	5325.01	33.97
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.17	3.30	3.76	€STR	1.9230	0.0010			
5y	2.33	3.33	3.84	Euribor-1	1.8910	-0.0070	SOFR-1	4.2456	-0.0077
10y	2.68	3.68	4.19	Euribor-3	2.0760	0.0010	SOFR-3	4.1394	-0.0126
				Euribor-6	2.0990	0.0100	SOFR-6	3.9855	-0.0165
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1662	0.0022		EUR/JPY	172.71	0.01	CRB	302.68	-1.70
USD/JPY	148.1	-0.26		EUR/GBP	0.8674	-0.0018	Gold	3635.50	43.30
GBP/USD	1.3444	0.0050		EUR/CHF	0.9377	0.0012	Brent	67.60	-1.54
AUD/USD	0.6543	0.0023		EUR/SEK	10.9889	-0.0224			
USD/CAD	1.3794	0.0012		EUR/NOK	11.7081	0.0227			

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