

Sunrise



Friday, 05 September 2025

KBC Sunrise Market Commentary

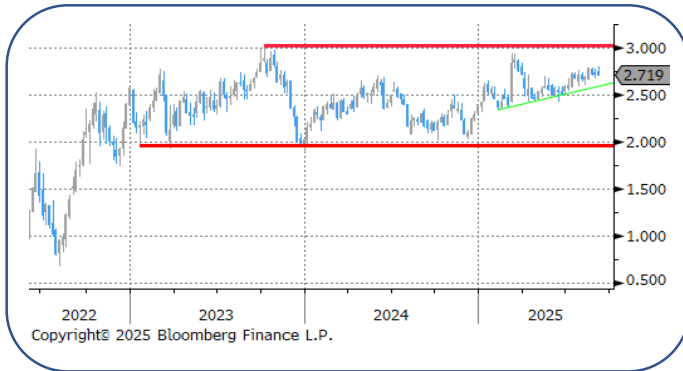
Markets

- The US services ISM yesterday for August improved from 50.1 to 52, better than the 51 expected. New orders soared to 56 from 50.3 and prices paid hovered near the highest levels in 2.5 years time. Yet, it's not what markets are paying attention to since Powell's dovish pivot at Jackson Hole. The labour market is what moves them. The ISM employment component stabilized near the lowest levels in two years. It also slightly missed estimates, just as did the earlier released private ADP job report (a mere 54k) and the jobless claims (237k). **They extended this week's streak of sub-par labour market-related outcomes**, including Tuesday's employment subseries in the manufacturing ISM and Wednesday's JOLTS job openings. US yields dropped but with the long end of the curve outperforming. Several factors may have contributed to this, ranging from a further (temporary) easing of fiscally-related risk premia over markets catching up in pricing a growth slowdown to technical elements. **The 10-year (-5.6 bps) for example lost support at the July-August summer lows** around 4.18% to close at 4.16%. The 2-year tenor forfeited the recent low-points by slipping sub 3.6%. German rates eased between -0.2 and -2.1 bps in a similar bull flattening move. **If all of the releases earlier this week are to offer any guidance for the payrolls later today**, we're bound to see further UST outperformance today. The bar of 75k isn't a particularly high one. So a miss to the downside would be telling. The unemployment rate is expected to creep higher to 4.3%. Payrolls reports nowadays come with the disclaimer of potentially huge revisions though. Either way, a soft report cements the case for an already fully priced in September rate cut and raises bets for consecutive moves at the October and December meeting. There's currently around 2.5 25 bps cuts for this year discounted. We're watching the **3.43%-3.5% area** seen in the aftermath of Liberation Day serving as the next references in the 2-yr yield. The 10-year maturity finds first support in the **4.1-4.12% region**. The dollar should lose ground in response but the limited moves over the past couple of days suggest some resilience, against the likes of the euro at least. EUR/USD yesterday and despite the UST outperformance even finished slightly lower. This could be related to **nervousness going into Monday's confidence vote in France**. Unless in case of a material downside payrolls surprise, we assume the July multiyear high at **1.1829 a tough nut to crack today**.

News & Views

- NBP governor Glapinski didn't completely shut the door for another rate cut at the October policy meeting** after the NBP cut its policy rate by 25 bps on Wednesday to 4.75%. During yesterday's press conference, Glapinski sounded more concerned that the disinflationary process might stall compared to in July with **upside risks** coming from fiscal policy, economic conditions, the labour market and uncertainty around energy prices. The NBP currently assumes that inflation could rise again above the upper tolerance band (3.5%) around the 2.5% inflation target if the government doesn't extend its energy price freeze beyond the current end date (end 2025). **Should they opt to keep energy prices longer in check, Glapinski expressed a cautious will within the MPC to cut rates again** given that they are still high in real terms. The Polish zloty was unmoved by the press conference with EUR/PLN holding within an extremely tight range near 4.25.
- Japanese labour cash earnings accelerated from an upwardly revised 3.1% Y/Y in June to a consensus-smashing 4.1% Y/Y in July**. Real cash earnings, adjusted for inflation, rose by 0.5% Y/Y (vs -0.6% Y/Y expected and **first increase since December 2024**). Special cash earnings (summer bonuses) increased by 7.9% Y/Y with base pay climbing by 2.8% Y/Y (from 2.6%). **The Bank of Japan's preferred metric** (base salaries for full-time workers in the same-sample) **picked up from 2.3% Y/Y to 2.4% with a technical quirk preventing a stronger uptick**. Wage data suggest ongoing momentum in Japan which will result in sticky core inflation and **keeps the Bank of Japan on track to implement another rate hike this year**. Japanese money markets currently discount a 1/3 probability that the BoJ lift s its policy rate from 0.50% to 0.75% at the end of October meeting when the central bank updates its quarterly growth and inflation projections.

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

Friday, 05 September		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Aug)	75k	73k
14:30	Change in Private Payrolls (Aug)	75k	83k
14:30	Change in Manufact. Payrolls (Aug)	-5k	-11k
14:30	Two-Month Payroll Net Revision (Aug)	--	-258k
14:30	Average Hourly Earnings MoM/YoY (Aug)	0.30%/3.80%	0.30%/3.90%
14:30	Average Weekly Hours All Employees (Aug)	34.3	34.3
14:30	Unemployment Rate (Aug)	4.30%	4.20%
14:30	Labor Force Participation Rate (Aug)	62.20%	62.20%
14:30	Underemployment Rate (Aug)	--	7.90%
Canada			
14:30	Net Change in Employment (Aug)	5k	-40.8k
14:30	Unemployment Rate (Aug)	7.00%	6.90%
14:30	Participation Rate (Aug)	--	65.20%
14:30	Hourly Wage Rate Permanent Employees YoY (Aug)	3.40%	3.50%
Japan			
1:30	Labor/Real Cash Earnings YoY (Jul)	4.10%A/0.50%A	3.10%R/0.80%R
1:30	Cash Earnings Same Sample Base YoY (Jul)	2.90%A	3.40%
1:30	Scheduled Full-Time Pay Same Base YoY (Jul)	2.40%A	2.30%
1:30	Household Spending YoY (Jul)	1.40%A	1.30%
UK			
8:00	Retail Sales Ex Auto Fuel MoM/YoY (Jul)	0.30%/1.10%	0.60%/1.80%
8:00	Retail Sales Inc Auto Fuel MoM/YoY (Jul)	0.20%/1.30%	0.90%/1.70%
EMU			
11:00	Govt Expend QoQ (2Q)	--	-0.10%R
11:00	Gross Fix Cap QoQ (2Q)	-1.00%	2.70%R
11:00	Household Cons QoQ (2Q)	0.20%	0.30%R
11:00	GDP SA QoQ/YoY (2Q T)	0.10%/1.40%	0.10%/1.40%
11:00	Employment QoQ/YoY (2Q F)	--/--	0.10%/0.70%
Germany			
8:00	Factory Orders MoM/WDA YoY (Jul)	0.50%/-0.6%	-1.00%/0.80%
Events			
1:00	Fed's Goolsbee Appears in a Moderated Q&A		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4.16	-0.06		US	3.59	-0.03	DOW	45621.29	350.06
DE	2.72	-0.02		DE	1.96	0.00	NASDAQ	21707.69	209.96
BE	3.28	-0.04		BE	2.08	-0.01	NIKKEI	42932.64	352.37
UK	4.72	-0.03		UK	3.95	-0.01	DAX	23770.33	175.53
JP	1.58	-0.02		JP	0.84	-0.01	DJ euro-50	5346.71	21.70
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2.17	3.26	3.74	€STR	1.9250	0.0020			
5y	2.33	3.28	3.82	Euribor-1	1.8720	-0.0190	SOFR-1	4.2275	-0.0181
10y	2.66	3.63	4.17	Euribor-3	2.0780	0.0020	SOFR-3	4.1210	-0.0184
				Euribor-6	2.1030	0.0040	SOFR-6	3.9558	-0.0297
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.1649	-0.0013		EUR/JPY	172.98	0.27	CRB	300.35	-2.33
USD/JPY	148.49	0.39		EUR/GBP	0.8671	-0.0003	Gold	3606.70	-28.80
GBP/USD	1.3434	-0.0010		EUR/CHF	0.9387	0.0010	Brent	66.99	-0.61
AUD/USD	0.6518	-0.0025		EUR/SEK	11.0224	0.0335			
USD/CAD	1.3818	0.0024		EUR/NOK	11.7541	0.0460			

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