Monday, 15 September 2025

KBC Sunrise Market Commentary

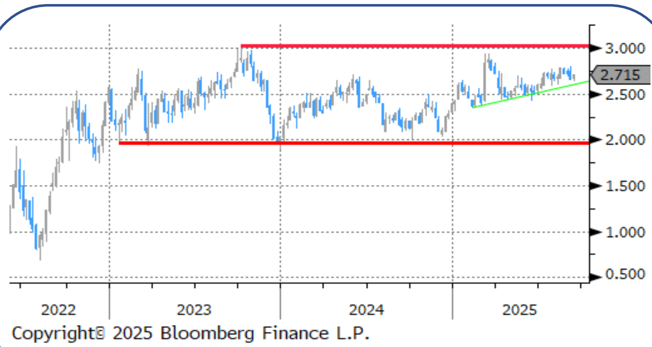
Markets

- **Rating agency Fitch lowered the French credit rating after market close on Friday from AA- to A+ with a stable outlook.** It's the **first time ever** that the French rating drops into single A category at one of the three big credit rating firms. **Belgium shared the same fate** when Fitch axed the rating to A+ back in June. France currently still holds a one-notch better rating at Moody's (Aa3; stable outlook) and S&P (AA-; negative outlook). Those rating agencies have a planned update on respectively October 25 and November 28. **The French high and rising debt ratio is the main culprit for Fitch's verdict.** It projects it to increase from 113.2% of GDP in 2024 to 121% in 2027 without a clear horizon for debt stabilization in subsequent years. **Political fragmentation hinders budget consolidation,** as illustrated by previous PM Bayrou's defeat in a parliamentary confidence vote. The instability of the political system (three different governments since snap election slightly over a year ago) weakens the capacity to deliver much-needed fiscal consolidation making it unlikely that the deficit return below 3% of GDP by 2029. **Fitch expects a deficit ratio of 5.5% of GDP this year (from 5.8% last year) and >5% shortcomings in 2026 and 2027 as well.** The underlying growth path is rather weak at 0.6%-0.9%-1.2% for the 2025-2027 period (trend growth estimated at a low 1.1%). **While the downgrade had been coming,** we see no sustainable path for a comeback in French assets and especially bonds. Since the current attempt to form a new government, led by PM Lecornu, offers only a path to again watered down fiscal efforts, **a new parliamentary ballot and related-uncertainty probably is the unavoidable scenario.** The single currency shows no signs of contagion this morning, holding steady at EUR/USD 1.1725.
- Today's eco calendar is empty apart from the **September US Empire Manufacturing Survey** and a speech by **ECB President Lagarde** after European close. The US figures (including tomorrow's retail sales) won't move the needle in the run-up to **Wednesday's FOMC meeting.** The re-start of the Fed's normalization cycle (25 bps rate cut) is discounted, but **markets will be screening the updated quarterly Summary of Economic Projections and Powell's presser into how far the cycle might reach.** We align with the currently priced in back-to-back-to-back moves stretching into December, but have **no strong conviction on next year given sticky and rising inflation.** This could also show up in the new dot plot in form of a wide-range of views by Fed governors. Money markets put the bottom currently at a neutral 3% in 2026. **ECB President Lagarde** is expected to stay close to last week's message. **Declaring the disinflation process as over set the stage for a prolonged pause at the current 2% policy rate level.**

News & Views

- **Fitch upgraded the Portuguese rating from A to A+ (stable outlook).** As a driver for the upgrade, Fitch, amongst others, mentions the **continued debt reduction.** Public debt fell from 134.1% in 2020 to 96.4% in Q1 of this year. The drop reflects **robust growth and sizeable primary surpluses** underpinned by **a strong record of prudent fiscal policy.** Fitch forecasts Portugal's public debt to fall further to 88.4% end 2027, albeit at a slower pace. The county currently has a balanced fiscal position. Fitch expects a budget surplus of 0.1% in 2025, but sees the general government balance to shifting to a moderate deficit of 0.7% in 2026 before easing again to -0.4% in 2027. Fitch expects growth of 1.8% this year and 2.2% next year, **outperforming EMU average growth** (1.1% in 2026 and 2027).
- **S&P upgraded the Spanish rating from A to A+ (stable outlook).** It mentions that **a decade of private sector deleveraging has led to a notable improvement in the county's external balance sheet,** lowering the country's sensitivity to sudden changes in external financing conditions and improving its overall resilience to economic shocks. Immigration, investment and past structural reforms are also said to drive buoyant employment growth. S&P expects **2.6% growth this year.** The rating agency also sees the services-based economy having limited US trade exposure insulating the economy from the immediate consequences of the US merchandise tariffs. Those positive developments are happening despite **the lack of a more resolute decline in the budget deficit and limited government debt reduction.** The budget deficit declined to 3.2% last year and is expected to slowly narrow to 2.6% of GDP in 2028. The bulk of this improvement comes from robust growth in revenue rather than significant discretionary fiscal consolidation. S&P expects gross debt-to GDP to slowly decline to 97% in 2028 from 99% now.

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 intact.

US 10y yield

The Fed's **focus since Jackson Hole has shifted with increased attention for (risks to) the labour market.** Poor August/September US payrolls data confirm a scenario of accelerated Fed rate cuts, confirming a break of 10-y yield below the 4.20/12% support. At the same time, the budgetary impact of **President Trump's big, beautiful bill moved to the background (for now).**

EUR/USD

Trump's explosive policy mix 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 towards 1.2349. **The Fed restarting its easing cycle will further reduce USD interest rate support.** 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

Monday. 15 September		Consensus	Previous
US			
14:30	Empire Manufacturing (Sep)	5.0	11.9
UK			
1:01	Rightmove House Prices MoM/YoY (Sep)	0.40%A/-0.10%A	-1.30%
EMU			
11:00	Trade Balance SA (Jul)	12.0b	2.8b
China			
3:30	New Home Prices MoM (Aug)	-0.30%A	-0.31%
3:30	Used Home Prices MoM (Aug)	-0.58%A	-0.55%
4:00	Retail Sales YoY/YTD YoY (Aug)	3.40%A/4.60%A	3.70%/4.80%
4:00	Industrial Production YoY/YTD YoY (Aug)	5.20%A/6.20%A	6.30%
4:00	Fixed Assets Ex Rural YTD YoY (Aug)	0.50%A	1.60%
4:00	Surveyed Jobless Rate (Aug)	5.30%A	5.20%
4:00	Property Investment YTD YoY (Aug)	-12.90%A	-12.00%
4:00	Residential Property Sales YTD YoY (Aug)	-7.00%A	-6.20%
Events			
10:00	ECB Publishes Survey of Monetary Analysts		
13:30	ECB's Schnabel Speaks in Luxembourg		
20:10	ECB's Lagarde Speaks in Paris		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,06	0,04		US	3,56	0,01	DOW	45834,22	-273,78
DE	2,72	0,06		DE	2,02	0,03	NASDAQ	22141,1	98,03
BE	3,25	0,06		BE	2,10	0,04	NIKKEI	44768,12	0,00
UK	4,67	0,07		UK	3,98	0,05	DAX	23698,15	-5,50
JP	1,59	0,00		JP	0,87	0,00	DJ euro-50	5390,71	3,94
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,22	3,23	3,74	€STR	1,9250	0,0000			
5y	2,36	3,26	3,80	Euribor-1	1,8790	0,0020	SOFR-1	4,1704	0,0084
10y	2,67	3,53	4,12	Euribor-3	2,0000	-0,0140	SOFR-3	4,0444	0,0144
				Euribor-6	2,1080	-0,0110	SOFR-6	3,8625	0,0168
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1734	0,0000		EUR/JPY	173,27	0,52	CRB	301,72	1,40
USD/JPY	147,68	0,47		EUR/GBP	0,8653	0,0008	Gold	3686,40	12,80
GBP/USD	1,3556	-0,0018		EUR/CHF	0,9347	0,0010	Brent	66,99	0,62
AUD/USD	0,6648	-0,0011		EUR/SEK	10,944	0,0215			
USD/CAD	1,3844	0,0011		EUR/NOK	11,561	-0,0084			

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