Tuesday, 16 September 2025

KBC Sunrise Market Commentary

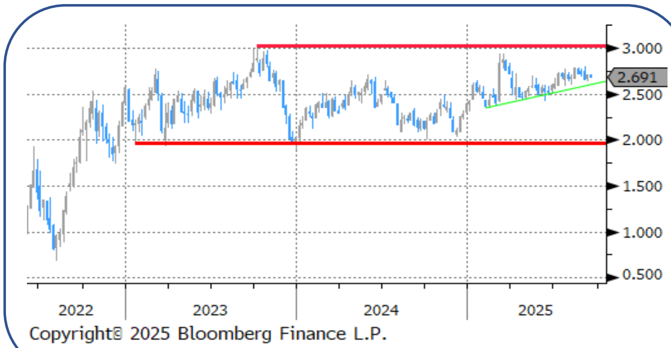
Markets

- **US Treasuries made one move yesterday, gaining slightly ground on a weak September Empire Manufacturing survey (-8.7 from 11.9 vs 5 expected).** Traded volumes were low with US yields eventually losing 2 bps to 3 bps with the belly of the curve outperforming the wings. Wednesday's FOMC decision numbs trading. The US Senate confirmed US President Trump's economic adviser Miran in time to vote while a US appeals court ruled that Fed governor Cook can't be fired before the Fed meeting. So both will have their say on the eventual outcome. **A 25 bps rate cut is the expected outcome,** but Fed Chair Powell won't be able to avoid dissenting views. **From a market point of view, guidance for the remainder of this year and for 2026 will be key** as the Fed gets **stuck between its dual mandate with both unemployment and inflation on the rise.** We side with market consensus for this year (75 bps cumulative), but build in some caution for next year as it's really anyone's guess at the moment on how things will play out both on the labour market and the inflation front. The bar from a Fed point of view seems lower to respond to a further deterioration of the labour market than to sticky price pressure. **US (money) markets therefore are unlikely to give up to idea of returning to or even slightly below a neutral 3% somewhere next year.**
- Relative calm on the bond market **supported overall risk sentiment** with European indices rallying up to 1% and daily changes in the US varying between +0.1% (Dow) and +0.95% (Nasdaq). EUR/USD moved from the 1.1720 area towards (and above this morning) 1.1760. Smaller, less liquid, currencies all profited from yesterday's market setting with the Hungarian forint for example closing below EUR/HUF 390 for the first time since July of last year.
- **UK labour market data** printed close to consensus this morning. Wage growth remains sticky at 4.7% with the unemployment rate stabilizing at 4.7% as well. Job growth was solid in July (232k 3M/3M) with August payrolls showing marginal job losses (-8k). **Tomorrow's CPI data have more market moving potential with the BoE – who meets later this week – warning for a run-up towards 4% Y/Y in September.** Today's eco calendar contains US retail sales, but the approaching FOMC meeting again serves as **a "blocking condition" to trigger a big market response.**

News & Views

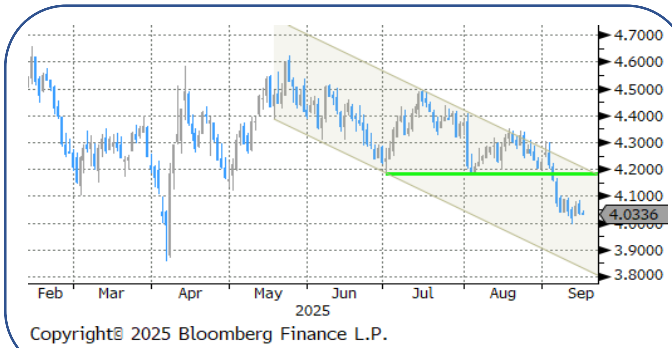
- **The Bank of France (BdF) published new quarterly economic forecasts** yesterday. In the current context of national political uncertainty, the projections are based on unchanged fiscal assumptions compared to the June forecast. These include **a budget deficit of 5.4% this year** and **primary structural adjustments of 0.6% of GDP next year and 0.4% in 2027.** However, BdF warns that less fiscal consolidation won't lead to additional growth as it prolongs fiscal uncertainty. The BdF slightly upwardly **revised 2025 growth from 0.6% to 0.7%** due to a better carry-over from H1 growth and a better expected economic performance in Q3 (+0.3%). **Growth is still seen picking up in 2026 (0.9%) and 2027 (1.1%), but at a slower pace compared to the June projections (-0.1%).** The slower growth expectation for next year and 2027 is amongst other attributed to a **more uncertain domestic business environment** and **less favorable assumptions concerning the international environment.** Growth remains underpinned by **stronger household consumption and a recovery in private investment.** The contribution of foreign trade to growth is expected to be virtually nil over these two years.
- RBA assistant governor Hunt said that **the RBA is pretty close to getting inflation back to the midpoint of its 2-3% target range.** At the same time Hunter assesses that **the economy remains near full employment.** In this context, he concludes that the RBA is 'monitoring' and that it hopes to ***'keep things where they are today'***. Monthly CPI figures will be published next week. **Q2 headline inflation was 0.7% Q/Q and 2.1% Y/Y, but the trimmed mean core measure still stood at 2.7% Y/Y.** The monthly July figure unexpectedly jumped to 1.9% from 2.8% admittedly as some temporary factors were in play (electricity subsidies). The comments from Hunter today are in line with current market pricing for **the RBA to keep the policy rate unchanged at 3.6%** when it meets on Sept 29-30. The market still discounts further easing in November and next year with the low of the easing cycle seen near 3.1%.

Graphs



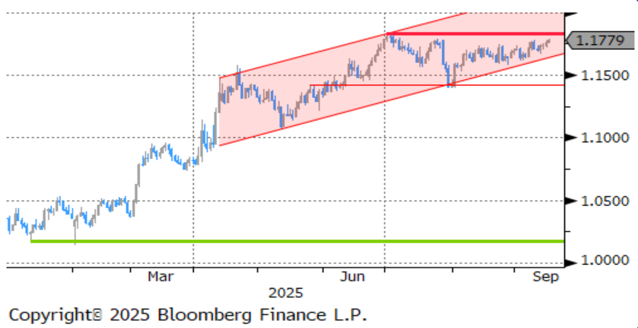
GE 10y yield

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.



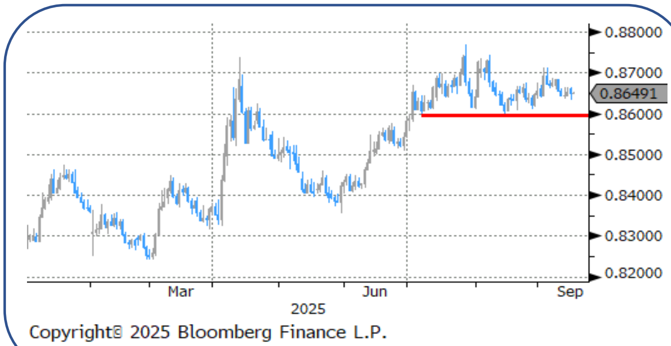
US 10y yield

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

Tuesday. 16 September		Consensus	Previous
US			
14:30	**Retail Sales Advance MoM (Aug)**	**0.20%**	**0.50%**
14:30	Retail Sales Ex Auto MoM (Aug)	0.40%	0.30%
14:30	Retail Sales Ex Auto and Gas (Aug)	0.40%	0.20%
14:30	**Retail Sales Control Group (Aug)**	**0.40%**	**0.50%**
14:30	New York Fed Services Business Activity (Sep)	-5.8	-11.7
15:15	Industrial Production MoM (Aug)	-0.10%	-0.10%
15:15	Capacity Utilization (Aug)	77.40%	77.50%
16:00	NAHB Housing Market Index (Sep)	33	32
Canada			
14:30	**CPI NSA MoM/YoY (Aug)**	**0.00%/2.00%**	**0.30%/1.70%**
14:30	Median YoY% (Aug)	3.10%	3.10%
14:30	Trim YoY% (Aug)	3.00%	3.00%
UK			
8:00	Average Weekly Earnings 3M/YoY (Jul)	4.70%	4.60%
8:00	Weekly Earnings ex-Bonus 3M/YoY (Jul)	4.80%	5.00%
8:00	Private Earnings ex-Bonus 3M/YoY (Jul)	4.70%	4.80%
8:00	**ILO Unemployment Rate 3Mths (Jul)**	**4.70%**	**4.70%**
8:00	**Employment Change 3M/3M (Jul)**	**220k**	**238k**
8:00	Payrolled Employees Monthly Change (Aug)	-12k	-8k
8:00	Claimant Count Rate (Aug)	--	4.40%
8:00	Jobless Claims Change (Aug)	--	-6.2k
EMU			
11:00	ZEW Survey Expectations (Sep)	--	25.1
11:00	Industrial Production SA MoM/WDA YoY (Jul)	0.40%/1.80%	-1.30%/0.20%
Germany			
11:00	ZEW Survey Expectations (Sep)	25.0	34.7
11:00	ZEW Survey Current Situation (Sep)	-73.6	-68.6
Poland			
14:00	CPI Core MoM/YoY (Aug)	0.10%/3.10%	0.30%/3.30%
Events			
10:00	ECB's Escriva Speaks in Madrid		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,04	-0,03		US	3,54	-0,02	DOW	45883,45	49,23
DE	2,69	-0,02		DE	2,02	0,00	NASDAQ	22348,75	207,65
BE	3,22	-0,03		BE	2,10	0,00	NIKKEI	44989,14	221,02
UK	4,63	-0,04		UK	3,95	-0,03	DAX	23748,86	50,71
JP	1,61	0,01		JP	0,88	0,01	DJ euro-50	5440,4	49,69
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,22	3,21	3,71	€STR	1,9260	0,0010			
5y	2,36	3,23	3,77	Euribor-1	1,8800	0,0010	SOFR-1	4,1520	-0,0184
10y	2,65	3,51	4,09	Euribor-3	2,0330	0,0330	SOFR-3	4,0408	-0,0036
				Euribor-6	2,1010	-0,0070	SOFR-6	3,8680	0,0055
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1761	0,0027		EUR/JPY	173,37	0,10	CRB	305,47	3,75
USD/JPY	147,4	-0,28		EUR/GBP	0,8649	-0,0004	Gold	3719,00	32,60
GBP/USD	1,3599	0,0043		EUR/CHF	0,9346	-0,0001	Brent	67,44	0,45
AUD/USD	0,6669	0,0021		EUR/SEK	10,9088	-0,0352			
USD/CAD	1,3778	-0,0066		EUR/NOK	11,5567	-0,0043			

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