KBC Economics – Markets, Havenlaan 2, 1080 Brussel

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KBC Sunrise Market Commentary

Markets

- In his speech at the Jackson Hole Fed symposium Friday, **Fed Chair Warsh after a month of doubts since the July FOMC press conference again firmly put the focus on the Fed's inflation mandate.** As the country is doing well on the Fed's employment mandate, the Fed chair again highlighted **the inflation mandate, which he labelled as more concerning,** with the PCE deflator at 3.7% still running well above the Fed's inflation target. While this summer's PCE and CPI readings were better than expected, they do not indicate that underlying trends have meaningfully improved. **The Fed Chair concluded that *'We must be confident that underlying inflation is moving to our objective, clearly and at sufficient speed. Otherwise, we have work to do. That's our job …. our mandate … and our charge to keep'.*** One can still debate on how concrete this analysis is regarding the timing and the extent of further tightening. Even so, markets clearly captured the message. The US yield curve bear flattened with yields rising between 11.1 bps (2-y) and 1.2 bps (30-y). Markets now see about 60% chance of a Fed rate hike at the September 16 meeting. For the end October meeting about 85% is discounted. **Yield changes in Europe** understandably were more modest with German yields rising between 4.2 bps (2-y) and 1.3 bp (30-y). **First August inflation data from EU Member States** including France (HICP 0.8% M/M and 2.7% Y/Y from 2.4%) and Spain (0.6% M/M and 4.5% Y/Y) again turned higher, confirming the case for the September rate hike as indicated by ECB comments of late. On FX markets, **the dollar gained substantially on Warsh's reconfirmed price stability commitment.** DXY gained from the 99.20 area to finish the week near 99.7. EUR/USD closed the session at 1.1585 (from 1.1653 Thursday evening). USD/JPY closed just north of the 160 reference. US equities jumped up and down in the wake of Warsh's speech, and closed the session with modest losses (S&P 500 -0.25%).
- Over the weekend**, the US and Iran for the first time in about a month again exchanged attacks** in an indication that the stalemate both on opening the Strait of Hormuz as well as on reaching any broader agreement might not be solved anytime soon. Brent oil rises modestly this morning to trade near $90.75 p/b. Asian equities mostly show modest losses. US yields are marginally lower. The dollar holds Friday's gains against the euro (EUR/USD 1.159). The yen slightly outperforms (USD/JPY 159.85). Markets being on alert for potential interventions still might be in play. In this respect, US Treasury Secretary Bessent said that he expects the BOJ 'to do the right thing' on monetary policy. **Later today, the eco calendar is thin except for the German CPI data ahead of the EMU release tomorrow.** Later this week, we receive the traditional early month US eco update including ISM's (Tuesday/Thursday) and labour market data (ADP Wednesday, payrolls Friday). However, especially for US activity data, big surprises are probably needed to move markets as the focus now is on inflation. After last week's upside rejected test, EUR/USD might correct somewhat further in the 1.14/1.17 short-term range with the 1.15 area a first reference on the charts.

News & Views

- **US president Trump announced what he called "the biggest oil deal in world history" with Venezuela late-Friday.** According to the Associated Press, the US government and an unnamed private operator have formed a new company that was given the rights to 17 untapped oil fields for 100 years. Those fields have **proven reserves mounting to 65 billion barrels of oil,** making the new company the second-largest corporate holder of reserves after Saudi Aramco, a US official said. Details remain scarce but among what is already known, the US would get 55% effective output of the new private company, including an ownership stake and rights to buy oil at cost. President Trump said the agreement would lower oil prices but analysts are less optimistic, citing a pressing need for investments in Venezuala's decayed oil infrastructure that could take years to repair**. Oil prices this morning even marginally rise to top the $90 barrier again following the first tit-for-tat strikes between the US and Iran since end-July.**
- **Icelanders on Saturday rejected a government referendum to restart EU accession talks.** Previous negotiations took place from 2009 to 2013 but then got buried with a government change. The current coalition revived the issue when coming to power end-2024. **Some 53% of the voters shot it down,** reportedly over fears of losing sovereignty over issues such as fishing and agriculture sectors which are key to the country. Those who campaigned to resume talks focused on the potential for trade that EU accession would give. With Iceland already having access to the single market through the European Economic Area, their arguments had little convincing power.

Graphs

GE 10y yield

The ECB hiked rates in June by 25 bps. It responded to rising risks of indirect and second round effects caused by higher oil prices. Markets are betting on follow-up hikes later this year after **the US-Iran interim deal was bombed into smithereens.** Real rates rise along with inflation expectations and bring the 2026 multi-year high in focus. **Higher risk premia** (in particular public finances) add a structural layer to higher yields.

US 10y yield

Fed Chair Warsh started on a hawkish note in June: "The Committee will deliver price stability". Market gave the Fed Chair a vote of confidence, but the communication crackdown is causing volatility at the front end of the curve. Real rates were driving the increase at the (very) long end of the curve as fiscal worries seem to make a return. **Warsh Jockson Hole speech** might help to slow the rise in inflation risk premia, but probably won't change the trend yet.

EUR/USD

EUR/USD 1.1392 support was cracking before sub-par June payrolls threw the pair a short-term life jacket. **A loss of market confidence after the July Fed press conference** did take some further shine of the US dollar. However, a sustained break beyond EUR/USD 1.17 was avoided. After Warsh's Jackson Hole speech the dollar now looks better protected within the 1.14/1.17 range.

EUR/GBP

EUR/GBP broke a GBP bullish triangle to the downside; with EUR/GBP falling below the key 0.86 support area. **Markets initially gave new PM Burnham the benefit of the doubt, but sterling momentum dwindled recently.** The 2026 November budget will be Burnham's litmus test. EUR/GBP found support around 0.845 with first resistance around 0.86.

Calendar & Table

Monday, 31 August		Consensus	Previous
US			
16:30	Dallas Fed Manf. Activity (Aug)	1.6	1.3
Japan			
01:50	Retail Sales MoM/YoY (Jul)	2.40%A/4.00%A	-3.90%R/0.60%R
01:50	Industrial Production MoM/YoY (Jul P)	-0.10%A/4.10%A	1.90%/4.90%
Germany			
14:00	CPI MoM/YoY (Aug P)	0.30%/3.00%	0.80%/2.80%
14:00	**CPI EU Harmonized MoM/YoY (Aug P)**	**0.30%/3.10%**	**0.90%/2.80%**
China			
03:30	Manufacturing PMI (Aug)	49.8A	49.2
03:30	Non-manufacturing PMI (Aug)	49.0A	49
03:30	**Composite PMI (Aug)**	**49.5A**	**49.3**
Poland			
09:30	CPI MoM/YoY (Aug P)	0.10%/3.20%	0.80%/3.00%
Events			
31AUG	**UK financial markets closed for Summer Bank Holiday**		
31AUG-01SEP	G20 Finance ministers and central bank governors meet		
11:30	EU to Sell Bonds		

10-year	Close	-1d		**2-year**	Close	-1d	**Stocks**	Close	-1d
US	4,68	0,03		**US**	4,23	0,02	**DOW**	53569,44	105,56
DE	3,25	0,02		**DE**	2,86	0,02	**NASDAQ**	26541,35	411,15
BE	3,80	0,01		**BE**	2,90	0,02	**NIKKEI**	66422,38	290,40
UK	5,03	0,00		**UK**	4,36	0,00	**DAX**	26367,24	81,28
JP	2,94	0,03		**JP**	1,71	0,02	**DJ euro-50**	6424,73	-46,01
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	3,09	4,10	4,30	**€STR**	2,1880	0,0010			
5y	3,13	4,13	4,37	**Euribor-1**	2,2830	0,0350	**SOFR-1**	3,6801	0,0042
10y	3,29	4,30	4,64	**Euribor-3**	2,5570	0,0030	**SOFR-3**	3,7586	-0,0012
				Euribor-6	2,7460	-0,0200	**SOFR-6**	3,8717	0,0050
Currencies	Close	-1d		**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1,1653	0,0002		**EUR/JPY**	185,74	0,12	**CRB**	405,17	3,52
USD/JPY	159,39	0,08		**EUR/GBP**	0,8573	0,0002	**Gold**	4664,00	10,70
GBP/USD	1,3593	-0,0002		**EUR/CHF**	0,9371	-0,0012	**Brent**	89,70	1,86
AUD/USD	0,7194	0,0024		**EUR/SEK**	11,0894	-0,0166			
USD/CAD	1,3855	-0,0022		**EUR/NOK**	10,8631	-0,0338			

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