KBC Economics – Markets, Havenlaan 2, 1080 Brussel

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Daily Market Overview

Markets

- **Brent crude broke the $100/b mark for the first time since July 23/24.** Taking out the July top of $102/b bring us at highest oil prices since the end of May. **European gas prices hit their highest level since January 2023 (€79/MWh).** The new leap higher add to the **bear flattening trends** of the past couple of days. UK Gilts underperform with the 2-yr UK yield adding 8 bps today. It fits in yesterday's suggestion by BoE governor Bailey that upside inflation risks are rising, both from energy and food. Up until now, markets have been **most reluctant to price an (aggressive) BoE tightening path** given internal division on whether to focus on growth or inflation. While a rate hike at next week's meeting remain a very long shot (<10%) markets are coming to terms with action in autumn. The implied probability of a November rate hike rises to 70% with follow-up action expected in February and April. Short-term European rates add to the tune of 5-6 bps. T**he EU 2y swap rate sets a new cycle top at 3.28%. In the run-up to tomorrow's ECB meeting, we might be looking at a short term exhaustion move.** Markets are clearly starting to discount the central bank's **severe scenario** which calls for a profound tightening of monetary policy. We don't expect the ECB to already acknowledge this, sticking with the adverse scenario which ask for a gradual tightening. **A December ECB rate hike (discounted) would still fit the adverse rhetoric. The hikes currently priced in for 2027 don't.** Changes across the US yield curve are more contained. Several factors hamper the move. First of all, there's **technical resistance** at 4.4% for the 2-yr yield and the 4.8% 10-yr yield. Second, US markets already did quite some (hawkish) repositioning since Fed chair Warsh's hawkish speech in Jackson Hole. They await the outcome of **Friday's August CPI report** to give the go-ahead for a rate hike next week. At the long end of the curve, attention turns to the **US Treasury** tonight which sells 10-yr Notes and conducts buybacks of illiquid Treasuries with maturities ranging from 10-yr to 30-yr. For the first time, they'll buy at least $4bn compared to the previous $2bn cap. It will be a good test for both investor appetite and the Treasury's resolve to try have an impact on the long end of the US yield curve.
- The intense sell-off on bonds markets **spreads to broader risk markets.** Key European indices lose around 1.5% with US markets opening up to 0.5% lower. EUR/USD marginally profits from the interest rate support, moving from 1.1620 to 1.1650. USD/JPY tested the recent lows around 153 following comments by US Treasury Secretary Bessent who called himself ***"the house":*** *"So when we intervene with the Japanese yen, I have pretty good insight what the Japanese, what the BoJ is going to do, what Japanese policymakers are going to do. Bet against me if you want."*

News & Views

- **The National Bank of Belgium's nowcasting models all point to clearly positive third-quarter growth, it said.** The Latest Business Cycle Monitor is suggestive of **growth between 0.3% - 0.6% with the lower end of that range being the most plausible one.** Risks to growth are considered neutral. **Investment is expected to carry the expansion.** Firms continue to implement investment plans, which are focused mainly on efficiency gains and cost savings rather than on capacity expansion. Housing investment inched up in the second quarter and is expected to continue to do so in Q3. **Household consumption growth is seen broadly stable in Q3** after a surprisingly resilient Q2 (0.4%). Budget consolidation efforts will probably **keep government consumption growth flat** in the running quarter but the planned expansion of military capacity should keep investment above its historical average, the NBB said. **Exports and imports are expected to rise more or less to the same extent,** keeping the contribution of net exports close to neutral in Q3.
- The **Czech central bank Deputy Governor Zamrazilova** told Reuters she **doesn't see many reasons for changing policy rates at the September 17 meeting.** The rate currently stands at 3.75% and is considered mildly restrictive. Zamrazilova did say **risks are pro-inflationary,** referring to sticky services inflation, real estate prices, a tight labor market, strong private sector lending and debt-financed public spending. So for the Deputy Governor, monetary policy today is ***"really about the level of restriction".*** Czech money markets are pricing in higher rates (around 4.5% as a terminal rate), but she wouldn't validate those outright. Those increased rates may be related to *"risk premiums"* or *"problems in the oil market".* Unlike most other central banks, the CNB won't have fresh forecasts at next week's policy gathering.

Graphs & Table

German 2yr yield breaches beyond 3% for first time since 2024 and energy prices prompt further hawkish repositioning-

EuroStoxx50: more intense bond sell off spreads to broader risk sentiment. Heading for test of 6.2k support

Brent crude back above $100/b as US and Iran keep exchanging blows

US 10-yr yield tests 4.8% with Note auction and Treasury buyback providing important signals tonight on short term potential for break

Data source: Bloomberg

German yield	td	-1d	**US yield**	td	-1d	**Stocks**	td	-1d
2	3,05	0,05	**2**	4,41	0,01	**DJ euro-50**	6309,38	-103,79
5	3,18	0,05	**5**	4,58	0,02	**DAX**	25617,7	-389,93
10	3,41	0,04	**10**	4,80	0,01	**S&P 500**	7650,32	-23,20
30	3,85	0,02	**30**	5,25	0,00	**Nikkei 225**	65142,78	-126,55
Spread vs GE (bps)	td	-1d	**Currencies**	td	-1d	**Commodities**	td	-1d
BE 10y	58	1,10	**EUR/USD**	1,1649	0,0025	**CRB**	419,57	0,00
FR 10y	89	2,00	**EUR/GBP**	0,8591	0,0007	**Gold**	4474,30	35,30
IT 10y	83	1,10	**USD/JPY**	153,36	-0,6200	**Brent**	100,63	2,71

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