

## Sunrise



Friday, 26 September 2025

# KBC Sunrise Market Commentary

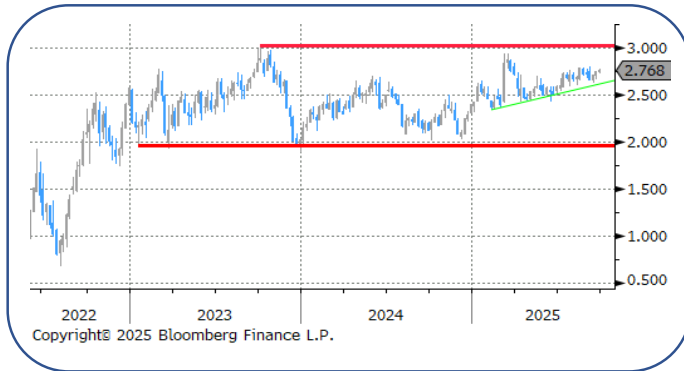
## Markets

- A two-day rally by the US dollar brought it to its highest levels in about a month.** The trade-weighted index closed at 98.55 yesterday. EUR/USD dipped to 1.1666, extending the correction lower from mid-September's failed attempt for a topside break from the sideways trading range. USD/JPY came just shy of the 150 big figure. Renewed dollar strength came on the heels of a strong set of US economic data. US Q2 GDP was revised upwards on higher personal consumption and jobless claims for a second week straight unexpectedly dropped. The level (218k) was the lowest since July and **sowed doubts on whether the labour market is as weak(ening) as the Fed currently believes.** With a stronger dollar came higher US yields. Net daily changes varied between +5.1 (2-yr) and near-flat (30-yr). European yields rose as well, with the belly underperforming the wings. The 2-yr swap yields punched through the recent September highs to close at levels last seen early April, prior to president Trump's Liberation Day. **Gilts underperformed.** Yields rose 6.6-8.8 bps across the curve with the long end slightly lagging the rest. Demand in a series of sub-par gilt auctions this week was the lowest in several years. While the DMO easily raised the amounts targeted, it does indicate markets' declining appetite for gilts as we go into the annual Autumn Budget announcement end November. Sterling grinded lower. EUR/GBP's closing level was the highest since end 2023 (0.8741).
- Overnight news flow is dominated by **President Trump announcing some new tariffs** and reviving the trade topic in doing so. Branded pharmaceuticals will be slapped a 100% tariff, starting October 1. Exemptions are offered to companies that are either "breaking ground" and/or already constructing manufacturing sites in the US. Other tariff announcements include a 25% levy on heavy trucks and a 50% charge on kitchen cabinets and bathroom vanities. **They are introduced under Section 232 of the Trade Expansion Act**, so falling outside the scope of the reciprocal tariffs that are currently being investigated for its legality while remaining in place at least through October 14. The impact for regions such as the EU could (conditional tense intended) stay limited since the 15% trade deal struck with the US is considered to be overruling. The US is said to announce other duties as well in coming weeks, including on semiconductors and critical minerals. In the meantime and from a daily perspective, we'll be looking at the release of the **August PCE deflators**. A slight acceleration is expected on a headline basis to 2.7% while the core measure should match July's 2.9%. The attention is focused at whether or not we'll see more tariff-related inflation filtering through. If so, that could further question the Fed's ability to deliver two more cuts this year. Money markets aren't so sure anymore and that's been supportive to (ST) yields and the dollar. EUR/USD 1.1557/1.1573 serves as a first support.

## News & Views

- Inflation in the Japanese capital region declined by 0.1% M/M in September to stabilize at a downwardly revised 2.5% Y/Y.** Consensus feared an acceleration to 2.8% Y/Y. Core measures slowed even more. Without fresh food prices, prices fell by 0.2% M/M (2.5% Y/Y stable). Also abstracting energy prices left them 0.3% lower (2.5% Y/Y from 3% Y/Y). Lower services prices (-0.4% M/M) contrasted with region goods prices (+0.2% M/M). The unexpected slowdown in Tokyo inflation has **likely to do with local legislation** (waiver of childcare fees for firstborns) and is **unlikely to be repeated in national numbers to be released on October 24**, one week before a potential pivotal Bank of Japan meeting (Oct 30; first rate hike since January?).
- Dallas Fed president Logan made the case for modernizing the FOMC's operating target rate. The FOMC began publicly targeting the fed funds rate in the mid-1990s which is now outdated. **A repo rate would provide a more robust target and allow the Fed to adjust proactively and planfully. She proposes switching to the tri-party general collateral rate (TGCR)** which is cleaner as it incorporates more than \$1tn a day in risk-free transactions that represent a marginal cost of funds and marginal return on investment for a large number of participants.

## 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 (the first one delivered in September) 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.



### 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, 26 September		Consensus	Previous
<b>US</b>			
14:30	Personal Income/Spending (Aug)	0.30%/0.50%	0.40%/0.50%
14:30	Real Personal Spending (Aug)	0.20%	0.30%
14:30	<b>PCE Price Index MoM/YoY (Aug)</b>	<b>0.30%/2.70%</b>	<b>0.20%/2.60%</b>
14:30	Core PCE Price Index MoM/YoY (Aug)	0.20%/2.90%	0.30%/2.90%
16:00	U. of Mich. Sentiment (Sep F)	55.4	55.4
17:00	Kansas City Fed Services Activity (Sep)	--	4
<b>Japan</b>			
1:30	<b>Tokyo CPI YoY (Sep)</b>	<b>2.50%A</b>	<b>2.50%R</b>
1:30	Tokyo CPI Ex-Fresh Food YoY (Sep)	2.50%A	2.50%
1:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Sep)	2.50%A	3.00%
<b>EMU</b>			
10:00	ECB 1 Year CPI Expectations (Aug)	2.50%	2.60%
10:00	ECB 3 Year CPI Expectations (Aug)	2.40%	2.50%
<b>Events</b>			
15:00	Fed's Barkin Conversation at the PIIE		
19:00	<b>Fed's Bowman Speaks on Monetary Policy</b>		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,17	0,02		US	3,66	0,05	DOW	45947,32	-173,96
DE	2,77	0,02		DE	2,04	0,02	NASDAQ	22384,7	-113,16
BE	3,33	0,03		BE	2,13	0,02	NIKKEI	45431,32	-323,61
UK	4,76	0,09		UK	4,02	0,07	DAX	23534,83	-131,98
JP	1,67	0,02		JP	0,93	-0,01	DJ euro-50	5444,89	-19,67
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2,27	3,38	3,78	€STR	1,9270	-0,0010			
5y	2,43	3,41	3,86	Euribor-1	1,8960	0,0070	SOFR-1	4,1675	-0,0035
10y	2,73	3,67	4,18	Euribor-3	1,9800	-0,0130	SOFR-3	4,0042	0,0000
				Euribor-6	2,1090	0,0060	SOFR-6	3,8756	0,0217
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1666	-0,0072		EUR/JPY	174,75	-0,03	CRB	303,35	0,47
USD/JPY	149,8	0,90		EUR/GBP	0,8742	0,0013	Gold	3771,10	3,00
GBP/USD	1,3345	-0,0102		EUR/CHF	0,9328	-0,0006	Brent	69,42	0,11
AUD/USD	0,654	-0,0043		EUR/SEK	11,0378	0,0038			
USD/CAD	1,394	0,0044		EUR/NOK	11,7095	0,0401			

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