Wednesday, 01 October 2025

KBC Sunrise Market Commentary

Markets

- **EMU and US bond markets were some kind of paralyzed yesterday.** Data were too close to consensus to unsettle market expectations on monetary policy. At the same time investors **kept cautious at the final day of the quarter while at the same time looking forward to upcoming political and/or data-event risk.** German yields changed less than 1 bp across the curve. **National CPI data** were mixed with softer-than-expected French inflation being countered by slightly higher-than-expected releases in Germany, Italy and Spain (on Monday). **This puts the risk for today's (Flash) EMU CPI slightly to the upside.** Even so, it doesn't change the prolonged wait-and-see modus for ECB policy. **US yields eased 1-2 bps across the curve.** JOLTS job openings printed marginally stronger than expected and other details of the series at least didn't suggest a rapid deterioration in US labour market conditions. At the same time, US consumer confidence eroded further (94.2 from 97.8). The **looming US government shutdown had only marginal impact, if any at all,** as there is currently no debate on the debt ceiling/debt payments. US equities traded with a positive bias (S&P 500 +0.41%, close less than 0.2% from all-time record). The dollar lost modest ground (DXY close 97.78, EUR/USD 1.1734 & USD/JPY 147.9). **All these cross rate are holding firmly with the established ranges).**

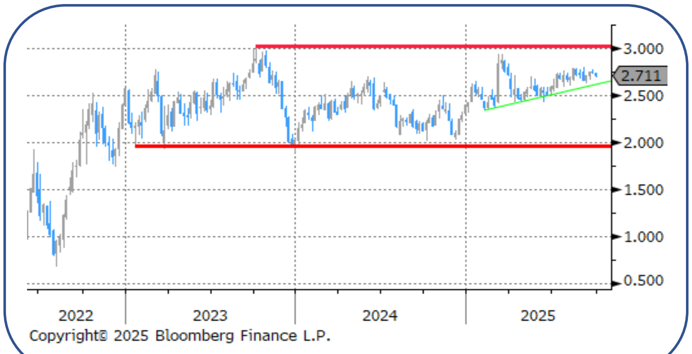
- Asian (equity) markets trade mixed this morning. **Japanese markets underperform** as a solid BoJ Tankan report supports the case for further BoJ easing later this month (cf infra). Most other markets are trading in green. **The US government shutdown in the meantime is a fact.** Markets in the first place are focused on a delayed release of key data (including Friday's payrolls). At the same time, question is to what extent **it will undermine growth going forward.** In a first reaction, the dollar is ceding further ground. USD/JPY currently trades near 147.55. EUR/USD gains to the 1.175 area. **If anything, a long shutdown, might weigh on US real yields and in this respect might also be a slightly negative for the dollar.** Regarding regular data, the eco calendar today contains the flash EMU CPI data (headline expected at 0.1% M/M and 2.2% Y/Y from 2%, core unchanged at 2.3%). In the US, the ADP private job growth (+ 51k from 54k expected) and the US manufacturing ISM (49 from 48.7 expected) take center stage**. With some uncertainty on the government shutdown lingering, we hold the view that markets (yields, dollar) might be a bit more sensitive to negative rather than to positive surprises.**

News & Views

- **A solid Tankan survey for the third quarter in Japan is adding to the case for the Bank of Japan to resume rate hikes later this month.** Large manufacturers are more upbeat with the index rising from 13 to 14. The forward-looking gauge matched Q2's 12, suggesting they are largely shrugging off tariff-related uncertainty and pressure. The non-manufacturing sector was as optimistic as they have been in recent quarters with business conditions (34) seen most favourable in around 34 years. Their outlook (28) improved to **similar historic levels.** Capex spending across all industries in the fiscal year from April would climb to 12.5% from 11.5%, more than the 11.3% expected. **Japanese businesses see inflation at 2.4% in five years.** That's above the central bank's 2% target and an acceleration from Q2's 2.3%. This price gauge is closely watched by the Bank of Japan. The Japanese yen barely budged on the release but later strengthened a tad against an overall weaker US dollar. USD/JPY trades around 147.6. Japanese (money) markets are now on the lookout for **potentially important speeches by BoJ deputy governor Uchida and governor Ueda tomorrow and on Friday and LDP chair (and therefore PM) elections this weekend.**

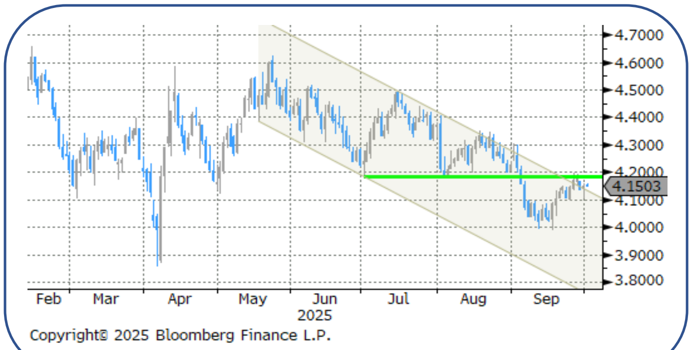
- The Indian central bank **(Reserve Bank of India, RBI)** left its **benchmark rate unchanged at 5.5% this morning.** The unanimous decision and the bank's current neutral stance was accompanied by **language that kept all options open.** Governor Malhotra said that there is policy space for further supporting growth but warned that (earlier) front-loaded monetary policy actions and fiscal measures are still playing out while trade-related uncertainty is still abound. The most prudent choice was for the central bank to wait for the impact to unfold. **The RBI raised its growth forecast for the FY ending March 2026 to 6.8% from 6.5% while downgrading the inflation projection to 2.6% from 3.1%.** The Indian rupee steadied near the record lows of USD/INR 88.71.

Graphs



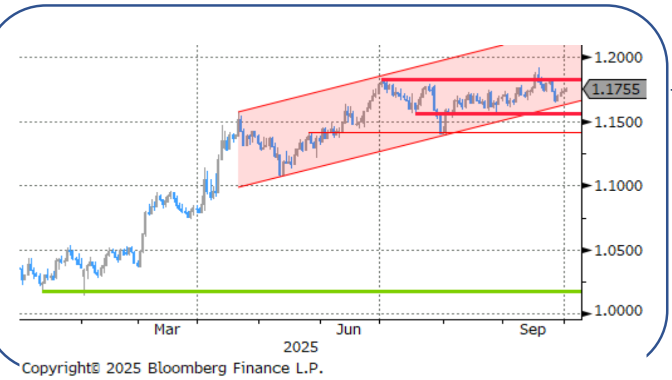
GE 10y yield

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.



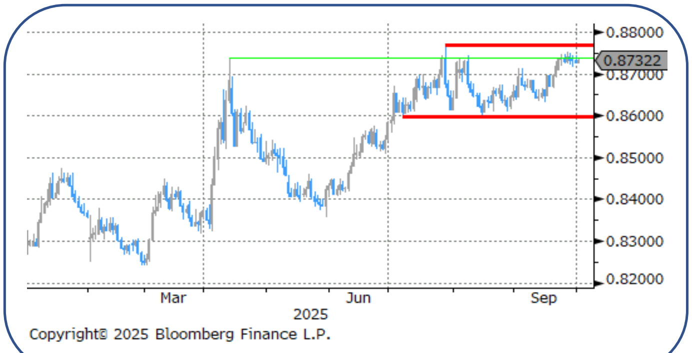
US 10y yield

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

Wednesday, 01 October		Consensus	Previous
US			
14:15	ADP Employment Change (Sep)	51k	54k
16:00	ISM Manufacturing (Sep)	49.0	48.7
16:00	ISM Prices Paid (Sep)	62.7	63.7
16:00	ISM New Orders (Sep)	50.0	51.4
16:00	ISM Employment (Sep)	44.3	43.8
16:00	Construction Spending MoM (Aug)	-0.10%	-0.10%
Japan			
1:50	Tankan Large Mfg Index/Outlook (3Q)	14A/12A	13/12
1:50	Tankan Large Non-Mfg Index/Outlook (3Q)	34A/28A	34/27
1:50	Tankan Large All Industry Capex Estimate FY (3Q)	12.50%A	11.50%
1:50	Tankan Small Mfg Index/Outlook (3Q)	1A/-1A	1/-2
1:50	Tankan Small Non-Mfg Index/Outlook (3Q)	14A/10A	15/9
UK			
10:30	S&P Global UK Manufacturing PMI (Sep F)	46.2	46.2
8:00	Nationwide House PX MoM/NSA YoY (Sep)	0.20%/1.80%eco	-0.10%/2.10%
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Sep F)	49.5	49.5
11:00	CPI MoM/YoY (Sep P)	0.10%/2.20%	0.10%/2.00%
11:00	CPI Core YoY (Sep P)	2.30%	2.30%
Italy			
9:45	HCOB Italy Manufacturing PMI (Sep)	49.9	50.4
Sweden			
8:30	Swedbank/Silf PMI Manufacturing (Sep)	--	55.3
Events			
01-XXOCT	US government data releases may be impacted by shutdown		
01-08OCT	Chinese markets closed for National Day (Golden Week)		
1:10	Fed's Logan Speaks in Moderated Conversation		
9:15	ECB's Kazimir, Kocher, Simkus in Bratislava		
9:45	ECB's Guindos Speaks		
11:55	BOE's Mann Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,15	0,01		US	3,61	-0,01	DOW	46397,89	81,82
DE	2,71	0,00		DE	2,02	0,00	NASDAQ	22660,01	68,86
BE	3,26	0,00		BE	2,12	0,00	NIKKEI	44582,15	-350,48
UK	4,70	0,00		UK	3,99	0,00	DAX	23880,72	135,66
JP	1,65	0,00		JP	0,96	0,01	DJ euro-50	5529,96	23,11
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,24	3,35	3,77	€STR	1,9160	-0,0100			
5y	2,38	3,39	3,84	Euribor-1	1,9290	-0,0020	SOFR-1	4,1330	0,0013
10y	2,68	3,66	4,15	Euribor-3	2,0320	0,0160	SOFR-3	3,9697	-0,0109
				Euribor-6	2,0960	-0,0130	SOFR-6	3,8296	-0,0156
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1734	0,0007		EUR/JPY	173,53	-0,72	CRB	300,60	-1,99
USD/JPY	147,9	-0,69		EUR/GBP	0,8727	-0,0004	Gold	3873,20	18,00
GBP/USD	1,3446	0,0017		EUR/CHF	0,9345	-0,0009	Brent	66,03	-1,06
AUD/USD	0,6613	0,0036		EUR/SEK	11,0503	-0,0004			
USD/CAD	1,392	0,0005		EUR/NOK	11,7213	0,0169			

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