



Monday, 06 October 2025

KBC Sunrise Market Commentary

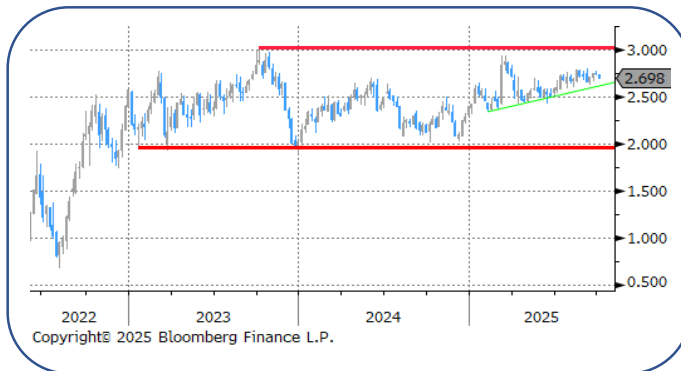
Markets

- The Japanese prime minister to be is sending tremors across bond markets.** Takaichi won this weekend's LDP elections (see below) and is therefore on track to become premier. **She'll be the country's first ever female leader, has a nationalist bent with conservative foreign policy views and as an Abenomics-adept a strong taste for fiscal support.** Add an already enormous debt pile, inflation well above the Bank of Japan's 2% target and Takaichi's open criticism on previous rate hikes, and you have a deadly cocktail for (long-term) bonds. The 30-40 yr yield bucket rips 13+ bps higher and is dragging the rest with it. US yields add between 0.6 and 4.2 bps in a steepening move. These follow on Friday's 2.3-4.5 bps bear flattening. An **across-the-board weaker than expected services ISM** triggered a kneejerk yield reaction lower first before rebounding. It suggests US markets are comfortable for the time being pricing in two regular (instead of e.g. 50 bps jumbo) rate cuts for the remainder of 2025. German bund futures drop in early trading this morning, suggesting a higher open compared to Friday's broadly unchanged close. **French OATs face a worse fate.** They underperform on president Macron appointing more or less the same cabinet the ousted PM Bayrou had worked with. **Markets fear the incumbent premier Lecornu is headed for the same direction** (aka exit). That would leave the dire budget situation unaddressed for yet another several weeks to months. We're keen to find out UK gilts' reaction to the public finances/fiscal policy theme reclaiming its spot at the center of attention. **The Japanese yen is lagging global peers.** The risk of pro-inflationary fiscal policy **whacks JPY to an all-time low against the euro to EUR/JPY 176+.** USD/JPY bounces to 150.3, nearing the upper bound of this summer's trading range. The common currency is feeling a bit of selling pressure against the USD, perhaps inspired by the French political limbo. EUR/USD inches lower to 1.172. Stocks meanwhile are surfing the fiscal wave textbook-style. Japanese equities surge 5% and more. European and US futures (for what they are worth) suggest slight gains at the open, be it to new record highs. We expect the theme of public finances to direct trading at least for today given the empty economic calendar. ECB's Lagarde (before the EU parliament) and Bank of England's Bailey do have speeches planned that are worth following up. For the remainder of the week we'll be watching tomorrow's **Japanese 30-yr bond sale**, a litmus test for investor appetite in a drastically changed political environment. The US calendar is stripped of the usual government data (trade balance, jobless claims) but Michigan consumer sentiment is on tap for Friday. The beginning-of-the-month refinancing round kicks off tomorrow with the 3-yr auction. Wednesday and Thursday features a 10-yr and 30-yr note sale respectively. The September meeting minutes are scheduled for release by the Fed (Wednesday) and ECB (Thursday).

News & Views

- In Parliamentary elections in the Czech Republic, **the ANO party of former Prime Minister Andrej Babis came out as the strongest party with about 35% of the votes.** That was well ahead of **the Spolu group of Prime Minister Petr Fiala that only received 23.4% of the votes.** Andrej Babis indicated that he will try to form a government with this ANO party **looking for support of two smaller parties**, the far right Freedom and Direct Democracy party and populist Motorists party. Combined with 80 seats of ANO, the two smaller parties might **provide the ANO government a support of 108 from the 200 votes** in the new parliament. Babis in his campaign indicated that he intended to scale back the policy of fiscal austerity of the previous government. On foreign policy, Babis signaled a policy that is more skeptical on the European Union, amongst others on immigration and on support for Ukraine. At the same time he indicated he didn't intend any kind of 'Czexit' policy. Early indications this morning suggest that the Czech koruna might keep recent gains with EUR/CZK trading near 24.25.
- In Japan, **Sanae Takaichi came out as the winner of the leadership elections of the ruling LDP party.** As such she is expected to become the first ever female Prime Minister of the country. The new LDP leader has a conservative profile and is **expected to set out an stimulative fiscal (and monetary) policy in the style of Abenomics.** In international policy, she may shift to a more nationalist regional approach. A fiscal supportive policy might be supportive of Japanese risk assets, but might **meet with further pressure/risk premia** for especially longer term Japanese bonds and might further weaken the yen even as inflation is holding above the BoJ target. In this respect, markets also **question the impact of the new government on the BoJ independently continuing its policy normalization** with follow-up rate hikes in the near future.

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% 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

| Monday, 06 October | | Consensus | Previous |
|--------------------|-------------------------------------------------------------|-------------|--------------|
| UK | | | |
| 10:30 | S&P Global UK Construction PMI (Sep) | 46,3 | 45,5 |
| EMU | | | |
| 10:30 | Sentix Investor Confidence (Oct) | -7,7 | -9,2 |
| 11:00 | Retail Sales MoM / YoY (Aug) | 0,10%/1.30% | -0,50%/2,20% |
| Germany | | | |
| 9:30 | HCOB Germany Construction PMI (Sep) | -- | 46 |
| Events | | | |
| 06OCT | US government data releases impacted by the shutdown | | |
| 9:30 | ECB's Guindos Speaks in Madrid | | |
| 10:00 | ECB's Lane Speaks in Frankfurt | | |
| 19:00 | ECB's Lagarde Speaks in EU Parliament in Strasbourg | | |
| 19:30 | BOE's Bailey Speaks | | |
| 23:00 | Fed's Schmid Speaks on Economic Outlook and Monetary Policy | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|------------|--------|---------|------|------------|---------|---------|-------------|----------|---------|
| US | 4,12 | 0,04 | | US | 3,58 | 0,04 | DOW | 46758,28 | 238,56 |
| DE | 2,70 | 0,00 | | DE | 2,02 | 0,01 | NASDAQ | 22780,51 | -63,54 |
| BE | 3,24 | 0,00 | | BE | 2,11 | 0,01 | NIKKEI | 48040,62 | 2271,12 |
| UK | 4,69 | -0,02 | | UK | 3,97 | -0,02 | DAX | 24378,8 | -43,76 |
| JP | 1,68 | 0,02 | | JP | 0,90 | -0,04 | DJ euro-50 | 5651,71 | 5,90 |
| | | | | | | | | | |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | 2,23 | 3,31 | 3,74 | €STR | 1,9210 | -0,0020 | | | |
| 5y | 2,38 | 3,36 | 3,82 | Euribor-1 | 1,9390 | 0,0130 | SOFR-1 | 4,1070 | -0,0054 |
| 10y | 2,68 | 3,63 | 4,15 | Euribor-3 | 2,0200 | 0,0200 | SOFR-3 | 3,9472 | 0,0017 |
| | | | | Euribor-6 | 2,0950 | 0,0120 | SOFR-6 | 3,7980 | 0,0121 |
| | | | | | | | | | |
| | | | | | | | | | |
| Currencies | Close | -1d | | Currencies | Close | -1d | Commodities | Close | -1d |
| EUR/USD | 1,1742 | 0,0027 | | EUR/JPY | 173,19 | 0,67 | CRB | 299,36 | 1,03 |
| USD/JPY | 147,47 | 0,21 | | EUR/GBP | 0,8710 | -0,0006 | Gold | 3908,90 | 40,80 |
| GBP/USD | 1,348 | 0,0040 | | EUR/CHF | 0,9339 | -0,0009 | Brent | 64,53 | 0,42 |
| AUD/USD | 0,6604 | 0,0008 | | EUR/SEK | 11,0049 | -0,0161 | | | |
| USD/CAD | 1,3952 | -0,0016 | | EUR/NOK | 11,7089 | 0,0087 | | | |

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