



Wednesday, 08 October 2025

KBC Sunrise Market Commentary

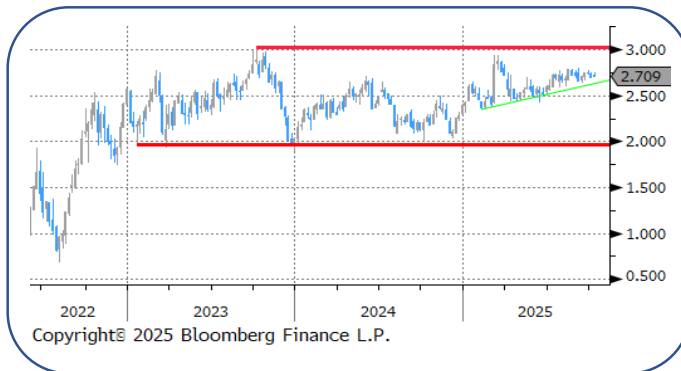
Markets

- The euro is in dire straits as the clock ticks down to tonight's deadline** for French caretaking PM Lecornu to report to President Macron on a potential roadmap to install a government. Monday's semi-optimism about a possible muddling-through scenario makes way for the harsh reality that **the current political set-up reached a dead end**. Socialists and Republicans have ruled out any accord that would unite them in government, the extreme-right RN smells electoral success and opposes any leftist set-up and even Macron's close ally Edouard Philippe suggested that Macron should horse-trade his presidency via snap presidential elections (normally 2027) in exchange for a caretaker government pushing through next year's budget. Macron himself said on Monday that he would take responsibility if Lecornu offers no way out of the political mess. We consider this as **calling snap legislative elections**, with the two voting rounds to take place in the first half of November (20-40 days after calling elections). **This period of extended uncertainty risks hurting French assets and the single currency**. The French 10-yr OAT/swap spread tested the YtD top just below 90 bps for a second session straight. The single currency tested, and this morning lost, support coming from the downside of an upward trend channel in the 1.1645-area. **The pair changes hands at 1.1615 and is at risk of rapidly sliding towards the early August low at 1.1392**. Especially as the USD-side of the equation doesn't play any role of significance with the government shutdown delaying key data releases and money markets happy with the prospects of 25 bps Fed rate cuts in October and December. **FOMC Minutes** of the September meeting will be published tonight but they will represent the wide range of view as spelled out in the Summary of Economic Projections and as seen in speeches by Fed governors since that meeting. The US Treasury continues its mid-month refinancing operation with a closely-watched \$39bn 10-yr Note auction followed by a 30-yr bond sale tomorrow. The French political/budgetary crisis **brings back public finances on bond markets' radar** as a market theme. The euro loses against sterling as well with EUR/GBP (0.8676) drifting from the upper end of the sideways trend channel in place since the start of July (0.8750) towards the lower bound (0.86). A speech by **Bank of England chief economist Pill** is worth watching today with the outcome of the November BoE-meeting potentially a closer call than markets currently discount (<10% probability of a rate cut).

News & Views

- The Reserve Bank of New Zealand cut its policy rate by a bold 50 bps**. The decision at least surprised part of the market as a majority of analysts expected a more modest 25 bps step. The RBNZ assesses that **annual consumer price inflation is currently around the top of the Monetary Policy Committee's 1% to 3% target band**. However, with spare capacity in the economy, inflation is **expected to return to around the 2% mid-point over the first half of 2026**. Economic activity through the middle of 2025 was weak, in part, due to domestic constraints on the supply of goods and services in some industries, and the impact of global economic policy uncertainty. Household consumption is recovering, partly because of lower interest rates, and elevated commodity prices continue to support the primary sector. Even as RBNZ both sees upside and downside risks to inflation it concluded that **prolonged spare capacity and the associated downside risk to medium-term activity and inflation prevailed** as a justification of a 50 bps step. The Committee even indicated that it remains **open to further reductions** as required. The 2-y NZ government bond yield declines 7 bps this morning (to 2.64%). The kiwi dollar lost about 1% and at USD/NZD 0.574 is trading at the weakest level since April.
- Rating agency Fitch in a first assessment of after this week's Czech elections**, indicated yesterday that **strong institutional checks will limit the scope for radical near term policy shifts by the next Czech government**. It therefore expects the incoming administration led by the ANO-party to **maintain a broadly prudent fiscal policy**. At the same time, Andrej Babis, the leader of the ANO-party, yesterday indicated that the next government might need to **increase the budget deficit for next year by CZK 60bn** to provide funding for new spending priorities, including investment infrastructure. This additional deficit spending **compares to a 2026 budget deficit proposal/draft of the current government of CZK 286bn**, which was already higher than this year's level due to higher defense spending.

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

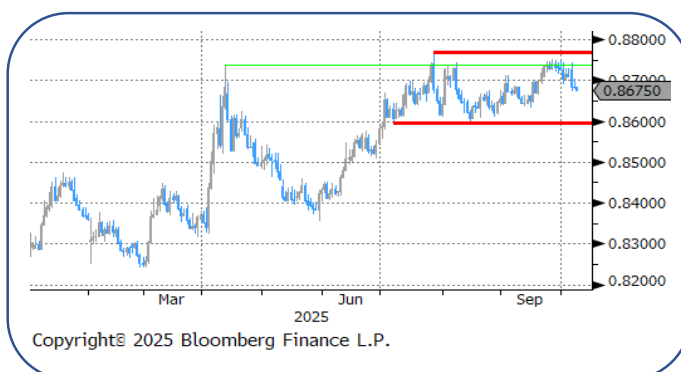
The Fed's **focus since Jackson Hole has shifted with increased attention for (risks to) the labour market.** Poor August/September US payrolls data confirm a scenario of accelerated Fed rate cuts (the first one delivered in September) confirming a break of 10-y yield below the 4.20% support. At the 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. 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 medium term, but **the single currency is vulnerable short term because of French politics.**



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 moves back lower in the range as the euro suffers from a French fever.

Calendar & Table

Wednesday, 08 October		Consensus	Previous
US			
20:00	FOMC Meeting Minutes		
Japan			
1:30	Labor Cash Earnings YoY (Aug)	1.50%A	3.40%R
1:30	Real Cash Earnings YoY (Aug)	-1.40%A	-0.20%R
1:50	Trade Balance BoP Basis (Aug)	-¥105.9bA	-¥189.4b
7:00	Eco Watchers Survey Current SA (Sep)	47	46,7
7:00	Eco Watchers Survey Outlook SA (Sep)	47,8	47,5
Germany			
8:00	Industrial Production SA MoM / WDA YoY (Aug)	-1,00%/-0.90%	1,30%/1.50%
New Zealand			
3:00	RBNZ Official Cash Rate	2,50%A	3,00%
Sweden			
8:00	CPI MoM/YoY (Sep P)	0.10%/1,00%	-0.40%1,10%
8:00	CPIF MoM/YoY (Sep P)	0,20%/3,20%	-0,20%/3,20%
8:00	CPIF Excl. Energy MoM / YoY (Sep P)	0,20%/2.80%	-0,50%/2.90%
Events			
11:30	Germany to Sell €1bn of 2.6% 2041 & €1bn of 3.25% 2042 Bonds		
15:20	Fed's Musalem Gives Welcoming Remarks		
15:30	Fed's Barr Keynote at Community Banking Research Conference		
16:00	Fed's Goolsbee Gives Opening Remarks		
17:00	BOE's Pill Speaks		
19:00	US to Sell \$39bn 10-yr Notes Reopening		
22:30	Fed's Kashkari Hosts Fireside Chat with Senator Tina Smith		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,12	-0,03		US	3,56	-0,02	DOW	46602,98	-91,99
DE	2,71	-0,01		DE	2,00	0,00	NASDAQ	22788,36	-153,31
BE	3,28	0,00		BE	2,12	0,00	NIKKEI	47842,12	-108,76
UK	4,72	-0,02		UK	3,98	-0,01	DAX	24385,78	7,49
JP	1,70	0,01		JP	0,93	0,02	DJ euro-50	5613,62	-15,10
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,23	3,31	3,77	€STR	1,9260	0,0010			
5y	2,38	3,36	3,85	Euribor-1	1,8970	-0,0230	SOFR-1	4,0814	-0,0058
10y	2,70	3,65	4,18	Euribor-3	2,0290	0,0030	SOFR-3	3,9370	-0,0083
				Euribor-6	2,1060	0,0030	SOFR-6	3,7941	-0,0075
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1657	-0,0054		EUR/JPY	177,07	1,00	CRB	301,07	0,04
USD/JPY	151,9	1,55		EUR/GBP	0,8683	-0,0002	Gold	4004,40	28,10
GBP/USD	1,3426	-0,0059		EUR/CHF	0,9306	-0,0005	Brent	65,45	-0,02
AUD/USD	0,6581	-0,0036		EUR/SEK	10,9604	-0,0208			
USD/CAD	1,395	0,0007		EUR/NOK	11,6234	0,0008			

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