



Friday, 17 October 2025

KBC Sunrise Market Commentary

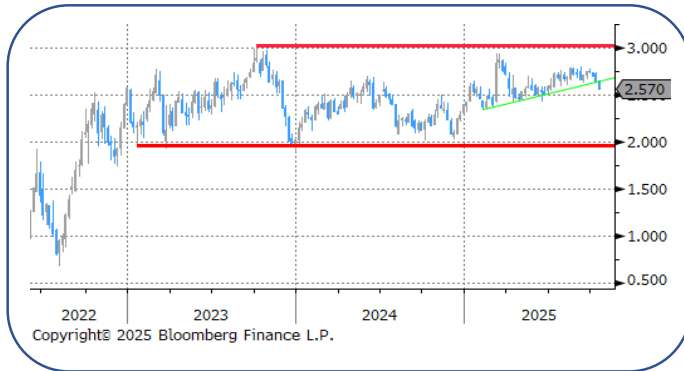
Markets

- Treasuries rallied yesterday, dragging yields 4.1 to 7.3 bps lower with the front end of the curve outperforming. Safe haven flows flocked into US bonds on reports of two regional banks (Zions & Western Alliance) saying they were the victim of collateral-related fraud on loans to funds that invest in distressed commercial mortgages. Both banks fell more than 10%, dragging the broader **regional bank index significantly lower too**. This index got to the center of attention back in March 2023, when other regional lenders including Silicon Valley Bank failed and caused tremors across other markets. The current matter is different from the underlying issues back then (Treasuries deeply under water due to the Fed's tightening cycle) and **it remains to be seen if this is an isolated, one-off event**. Being in a late cycle economy, however, it does trigger investor concerns of wider spread cracks emerging in the credit market. The lack of other news puts a magnifier on the topic, potentially exacerbating the moves. **A yet again empty economic calendar just might do the same for today**, especially going into the weekend and considering yesterday's technical break lower. The US 10-yr yield dropped below the 4% barrier and is now eyeing support at 3.88%, where the 76.4% retracement on the Sep 2024 – Jan 2025 rally coincides with the temporary lows seen in the aftermath of president Trump's April 2 tariff announcements. The 2-yr yield already surpassed that mark. The 3.4% is currently the lowest level since September 2022. **Money markets for the first time since the September meeting are mulling the possibility of a jumbo cut** at one of the two remaining meetings this year. The cumulative amount of easing priced in rose to 55 bps. In the ultra-short yield segment we're looking very closely at the **SOFR fixing**. Yesterday's 4.29% was higher than the Fed's upper bound of the 4.-4.25% target range. Net TBill supply was one of the reasons said to have stretched liquidity but the mere fact that it did is reason enough to follow up on the matter. German bunds underperformed Treasuries yesterday but they missed out on a second risk-off leg happening after European closing hours. Bund futures marched higher yesterday evening and this morning. Wall Street contained losses to around 0.6% but futures suggest a further decline, including for Europe (-0.9%). We expect the US dollar to remain under pressure, just as it did yesterday. **US-related risk-off (for now at least) appears to hurt the greenback more than the euro**, allowing EUR/USD to rebound to 1.173 currently after its recent correction lower. French PM Lecornu surviving two votes of no confidence eases some of the most acute risk for new elections but we remain skeptical. The hard part, budget talks, has only just begun. Belgium is facing a similar daunting task. It dodged rating agency Moody's bullet last week but S&P is lining up (review next Friday). S&P has a AA rating with a negative outlook (since April this year). The Japanese yen outperforms in these risk aversion circumstances, pushing USD/JPY back below 150 for the first time since early October.

News & Views

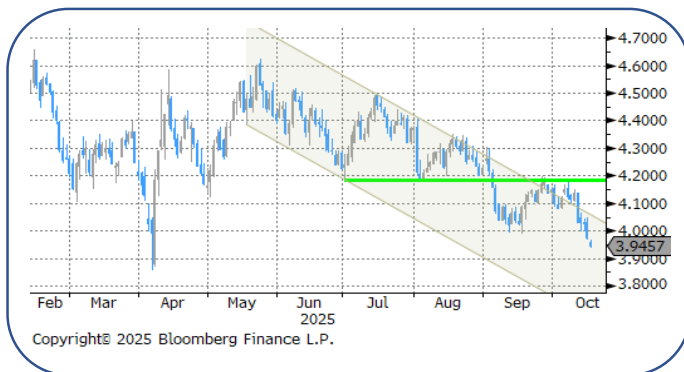
- Bank of Japan governor Ueda kept the door open for a rate hike** when the central bank convenes at the end of the month. He said that there's no change in the central bank's stance that they will adjust the degree of monetary easing if confidence in hitting the outlook increases. Japanese money markets currently attach only a 15% probability to a 25 bps rate hike. Speeches by BoJ Takata and BoJ Himino are still scheduled on Monday and on Tuesday with national CPI numbers out on Friday. Takata was one of two BoJ-members who already thought that a rate hike was justified at the September meeting. BoJ governor Ueda didn't touch on domestic politics as a potential source of volatility which could impact monetary policy. **The Japanese parliament is scheduled to vote on the next PM on Tuesday**. The ruling LDP party is still searching for a new coalition partner after its junior partner Komeito ended the collaboration in the aftermath of LDP leadership election. They have been courting the Japan Innovation Party (Ishin). One of Ishin's co-leaders called it a 50/50 toss-up this morning whether they'd back LDP's Takaichi or whether they join forces with main opposition parties in supporting the leader of the Democratic Party for the People, Tamaki. USD/JPY dives back below the 150-handle this morning on a combination of USD-weakness and JPY strength in the risk-off market climate.

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 considers it to be in a good place to respond to potential shocks. **German bunds meanwhile ever more gain safe haven status** as uncertainty with respect to US assets lingers against the backdrop of trade tensions between the US and China flaring up again. That is denting a public finance-driven rise in LT yields.



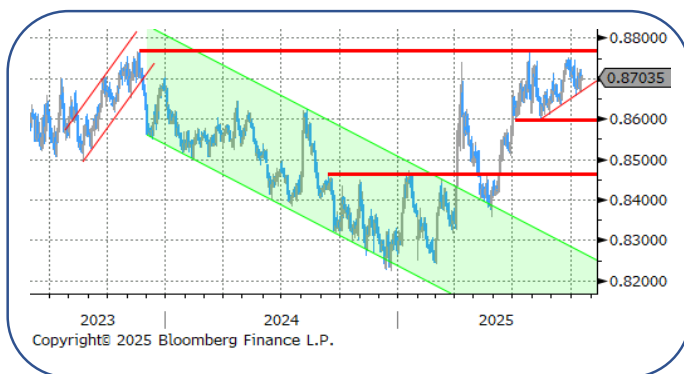
US 10y yield

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 reduce USD interest rate support** while Lecornu's survival took the sting out of the French political impasse in the short run. The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation medium term.



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

| Friday, 17 October | | Consensus | Previous |
|--------------------|--|-------------|--------------|
| US | | | |
| 14:30 | Housing Starts Total/MoM (Sep) | 1320k/1.00% | 1307k/-8.50% |
| 14:30 | Building Permits Total/MoM (Sep P) | 1343k/1.00% | 1330k/-2.30% |
| 14:30 | Import Price Index MoM/YoY (Sep) | 0.10%/0.40% | 0.30%/0.00% |
| 14:30 | Export Price Index MoM/YoY (Sep) | 0.10%/4.00% | 0.30%/-3.40% |
| EMU | | | |
| 11:00 | CPI MoM/YoY (Sep F) | 0.10%/2.20% | 0.10%/2.20% |
| 11:00 | CPI Core YoY (Sep F) | 2.30% | 2.30% |
| Sweden | | | |
| 8:00 | Unemployment Rate SA (Sep) | 8.70% | 8.80% |
| Events | | | |
| 17OCT | US government data releases impacted by shutdown | | |
| 11:35 | BOE's Pill Speaks | | |
| 13:00 | BOE's Greene Speaks | | |
| 14:45 | Bundesbank's Nagel, Germany's Klingbeil in DC | | |
| 18:30 | BOE's Breeden Speaks | | |
| 18:15 | Fed's Musalem in Fireside Chat at IIF | | |
| 19:00 | ECB's Rehn Speaks in DC | | |

| 10-year | Close | -1d | | 2-year | Close | -1d | Stocks | Close | -1d |
|------------|--------|---------|------|------------|---------|---------|-------------|----------|---------|
| US | 3,97 | -0,05 | | US | 3,42 | -0,07 | DOW | 45952,24 | -301,07 |
| DE | 2,57 | 0,00 | | DE | 1,91 | -0,01 | NASDAQ | 22562,54 | -107,54 |
| BE | 3,11 | -0,01 | | BE | 2,02 | 0,00 | NIKKEI | 47536,71 | -741,03 |
| UK | 4,50 | -0,04 | | UK | 3,85 | -0,05 | DAX | 24272,19 | 90,82 |
| JP | 1,63 | -0,04 | | JP | 0,91 | -0,02 | DJ euro-50 | 5652,01 | 46,98 |
| | | | | | | | | | |
| | | | | | | | | | |
| IRS | EUR | USD | GBP | EUR | -1d | -2d | USD | -1d | -2d |
| 3y | 2,10 | 3,15 | 3,59 | €STR | 1,9280 | 0,0000 | | | |
| 5y | 2,24 | 3,21 | 3,65 | Euribor-1 | 1,9220 | 0,0160 | SOFR-1 | 4,0238 | -0,0320 |
| 10y | 2,56 | 3,51 | 3,96 | Euribor-3 | 2,0040 | -0,0120 | SOFR-3 | 3,8625 | -0,0381 |
| | | | | Euribor-6 | 2,1100 | 0,0070 | SOFR-6 | 3,6817 | -0,0625 |
| | | | | | | | | | |
| | | | | | | | | | |
| Currencies | Close | -1d | | Currencies | Close | -1d | Commodities | Close | -1d |
| EUR/USD | 1,1687 | 0,0040 | | EUR/JPY | 175,81 | -0,13 | CRB | 293,85 | 0,24 |
| USD/JPY | 150,43 | -0,62 | | EUR/GBP | 0,8700 | 0,0010 | Gold | 4304,60 | 103,00 |
| GBP/USD | 1,3434 | 0,0031 | | EUR/CHF | 0,9268 | -0,0011 | Brent | 61,06 | -0,85 |
| AUD/USD | 0,6485 | -0,0028 | | EUR/SEK | 11,0179 | -0,0183 | | | |
| USD/CAD | 1,4054 | 0,0011 | | EUR/NOK | 11,7719 | 0,0120 | | | |

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