



Tuesday, 21 October 2025

## KBC Sunrise Market Commentary

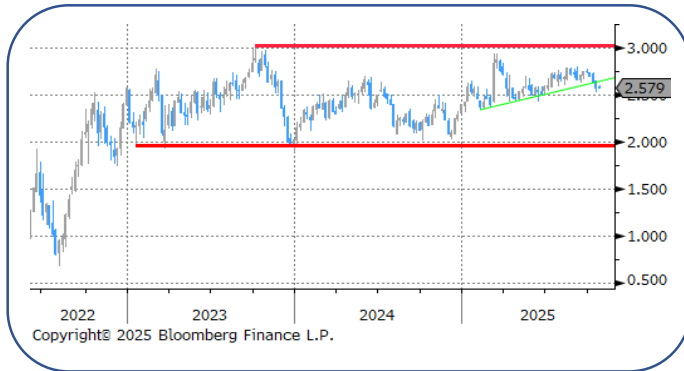
### Markets

- After a (brief) spike in risk-aversion/volatility over the previous 10-days, **markets returned to an 'easy going, low volatility environment'**. Moves in core interest rates and FX were limited. Stocks thrived. **Markets again turned more confident on a China-US trade deal** after some comforting comments from US officials, including president Trump. For now, there is also no indication of additional worrisome credit losses as US banks report earnings. European markets reacted very orderly to the S&P's credit downgrade of France. The Eurostoxx 50 (+1.31%) even touched an all-time record. The three major US indices added more than 1.0% and are also nearing record levels. **German yields** declined up to 1.0 bp across the curve. **US yields** in a bull flattening move ceded between 0.2 bps (2-y) and 3.6 bps (30-y). Fed governors don't guide markets anymore (blackout period). Even so, markets consolidate last week's (risk-off driven) easing, holding the view that the Fed will continue to give more weight to easing labour market conditions rather than to inflation. This interest rate positioning also supports equities, especially as potential risk factors are again moving to the background. **On FX markets**, technical trading still prevails. After some US-risk-off related losses last week, the dollar yesterday again found its composure and slightly outperformed the likes of the euro and the yen, but the moves were technically insignificant. DXY gained modestly (98.59 from 98.43 close on Friday). EUR/USD eased from 1.1655 to 1.1642. USD/JPY extended gains beyond the 150 barrier.
- This morning, Asian equities still join yesterday's risk rally. In Japan LDP leader Sanae Takaichi won de lower House vote to become the new Prime Minister of the country. While facing constraints, the new government is still seen as executing a growth supportive policy. At the same time, Bloomberg referring to people familiar with the matter, **indicated that Bank of Japan officials are in no hurry to raise the policy rate next week even as the economy is making progress towards reaching the BOJ's price stability target**. The combination of the approval of Takaichi and 'mild' BOJ comments, causes some easing in short-term Japanese bond yields (+/- 2.0 bps in the 2y-10y sector) and weighs on the yen. USD/JPY extends its rebound to 151.5.  
**Later today**, the US and EMU eco calendar is again extremely thin. So, the focus might again be on equity markets and corporates earnings, today including the likes of Coca-cola, , Netflix, Haliburton, Western Alliance and others. In interesting to see whether the results will be able to further facilitate the low vol environment. Of course geo/trade politics are also still in play. **Despite the risk-on, for now there is apparently little reason for market to leave there recent soft bias toward ECB and Fed policy**, with US yields still struggling not fall below key support levels. The dollar gets the benefit of the doubt. UK ONS published monthly public finance data that were closer to expectations, compared to last month's upward deficit surprise. Sterling is holding little changed near EUR/GBP 0.869.

### News & Views

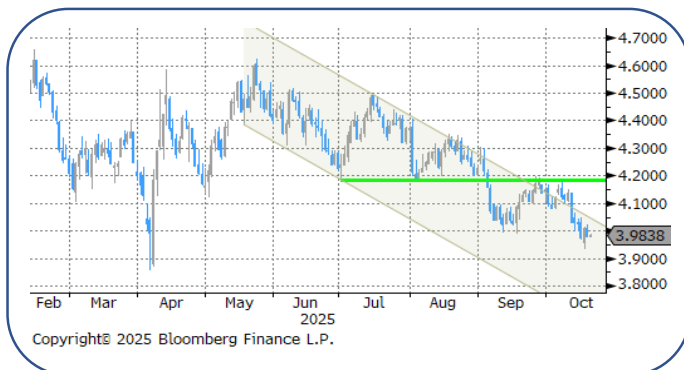
- The **US and Australia signed a pact which stipulates that both governments will jointly invest in a swathe of mines and processing projects Down Under to boost the production of rare earths and other key minerals**. Australia's PM Albanese said there's \$8.5bn of projects in the pipeline that are "ready to go". The agreement offers the US alternatives in accessing the key components used in advanced technologies amid concerns of China tightening its grip on the global supply chain through export restrictions. Australia holds the world's fourth-largest deposits of rare earths (after China, Brazil and India) and is the only producer of so called heavy rare earths outside China.
- The **Bank of Canada's business outlook indicator improved marginally to -2.3 from -2.4 in the third quarter**. They nevertheless remain below the long-term average. Firms' outlooks and intentions "remain subdued", the BoC noted, with "Expectations for growth in domestic export sales remain[ing] soft due to concerns about the broad economic effects of trade tensions." The steel and aluminium sectors reported "especially weak outlooks", the report revealed, with those sectors also reporting significant layoffs as a result. **More generally, most businesses don't expect to increase current staffing levels and few reported binding capacity constraints or labour shortages**. Soft demand and uncertainty related to trade means firms are holding back investments. The US tariffs are expected to be passed through to selling prices although weak demand is limiting the ability to do so. **One-year ahead inflation expectations are below the peak reached earlier in the trade conflict** and are now only slightly above the late-2024 levels. Money markets raised bets for another **BoC rate cut at the October 29 meeting to 75% after the quarterly survey was released**. Canadian inflation numbers released today offer the final input.

## 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.



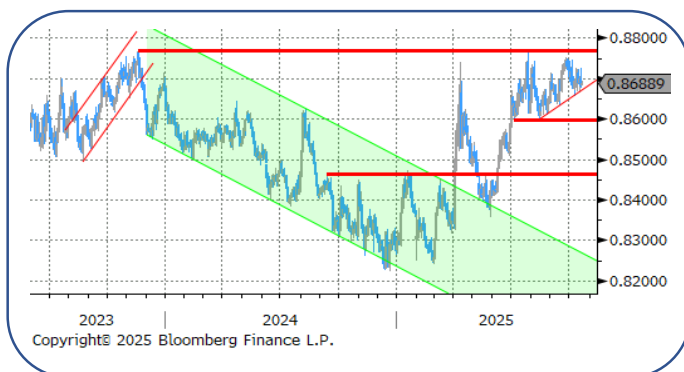
### US 10y yield

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

| Tuesday, 21 October |   | Consensus           | Previous            |
|---------------------|---|---------------------|---------------------|
| <b>US</b>           |   |                     |                     |
| 14:30               | Philadelphia Fed Non-Manufacturing Activity (Oct)   | --                  | -12.3               |
| <b>Canada</b>       |   |                     |                     |
| 14:30               | <b>CPI NSA MoM/YoY (Sep)</b>  | <b>-0.10%/2.20%</b> | <b>-0.10%/1.90%</b> |
| 14:30               | Median YoY% (Sep)   | 3.00%               | 3.10%               |
| 14:30               | Trim YoY% (Sep)   | 3.00%               | 3.00%               |
| <b>UK</b>           |   |                     |                     |
| 8:00                | Public Finances (PSNCR) (Sep)   | --                  | 10.2b               |
| 8:00                | PSNB ex Banking Groups (Sep)  | 20.8b               | 17.7b               |
| <b>Hungary</b>      |   |                     |                     |
| 14:00               | <b>Central Bank Rate Decision</b>   | <b>6.50%</b>        | <b>6.50%</b>        |
| <b>Events</b>       |   |                     |                     |
| Q3 earnings         | Halliburton (bef-mkt), Coca-Cola (bef-mkt), 3M (bef-mkt), GM (12:30), Netflix (22:01), Western Alliance (aft-mkt) ... |                     |                     |
| 20OCT-XX            | <b>US government data impacted by shutdown</b>  |                     |                     |
| 9:00                | ECB's Lane Speaks in Frankfurt  |                     |                     |
| 11:00               | UK to Sell GBP1.5 Billion of 1.5% 2053 Bonds  |                     |                     |
| 11:30               | Germany to Sell Bonds   |                     |                     |
| 13:00               | ECB's Lagarde Speaks at Norges Bank Climate Conference  |                     |                     |
| 15:30               | ECB's Kocher Speaks in Vienna   |                     |                     |

|            |              |            |            |            |              |            |             |              |            |
|------------|--------------|------------|------------|------------|--------------|------------|-------------|--------------|------------|
| 10-year    | <u>Close</u> | <u>-1d</u> |            | 2-year     | <u>Close</u> | <u>-1d</u> | Stocks      | <u>Close</u> | <u>-1d</u> |
| US         | 3,98         | -0,03      |            | US         | 3,46         | 0,00       | DOW         | 46706,58     | 515,97     |
| DE         | 2,58         | 0,00       |            | DE         | 1,91         | 0,00       | NASDAQ      | 22990,54     | 310,57     |
| BE         | 3,13         | 0,00       |            | BE         | 2,01         | 0,00       | NIKKEI      | 49249,44     | 63,94      |
| UK         | 4,51         | -0,03      |            | UK         | 3,85         | -0,03      | DAX         | 24258,8      | 427,81     |
| JP         | 1,66         | -0,01      |            | JP         | 0,94         | -0,01      | DJ euro-50  | 5680,93      | 73,54      |
|            |              |            |            |            |              |            |             |              |            |
|            |              |            |            |            |              |            |             |              |            |
| 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         | 2,13         | 3,18       | 3,60       | €STR       | 1,9270       | -0,0010    |             |              |            |
| 5y         | 2,27         | 3,23       | 3,67       | Euribor-1  | 1,9310       | 0,0120     | SOFR-1      | 4,0046       | -0,0054    |
| 10y        | 2,58         | 3,52       | 3,99       | Euribor-3  | 2,0150       | 0,0050     | SOFR-3      | 3,8699       | 0,0051     |
|            |              |            |            | Euribor-6  | 2,1000       | -0,0130    | SOFR-6      | 3,7033       | 0,0042     |
|            |              |            |            |            |              |            |             |              |            |
|            |              |            |            |            |              |            |             |              |            |
| Currencies | <u>Close</u> | <u>-1d</u> |            | Currencies | <u>Close</u> | <u>-1d</u> | Commodities | <u>Close</u> | <u>-1d</u> |
| EUR/USD    | 1,1642       | -0,0013    |            | EUR/JPY    | 175,49       | 0,02       | CRB         | 296,49       | 3,14       |
| USD/JPY    | 150,75       | 0,14       |            | EUR/GBP    | 0,8685       | 0,0002     | Gold        | 4359,40      | 146,10     |
| GBP/USD    | 1,3405       | -0,0022    |            | EUR/CHF    | 0,9226       | -0,0024    | Brent       | 61,01        | -0,28      |
| AUD/USD    | 0,6513       | 0,0014     |            | EUR/SEK    | 10,9762      | -0,0307    |             |              |            |
| USD/CAD    | 1,4037       | 0,0017     |            | EUR/NOK    | 11,7029      | -0,0307    |             |              |            |

## Contacts

| KBC Economics – Markets Brussels    |                  | Global Sales Force           |                  |
|-------------------------------------|------------------|------------------------------|------------------|
| Mathias Van der Jeugt               | +32 2 417 51 94  | Corporate Desk(Brussels)     | +32 2 417 45 82  |
| Peter Wuyts                         | +32 2 417 32 35  | Institutional Desk(Brussels) | +32 2 417 46 25  |
| Mathias Janssens                    | +32 2 417 51 95  | CBC Desk (Brussels)          | +32 2 547 19 51  |
|                                     |                  | France                       | +32 2 417 32 65  |
|                                     |                  | London                       | +44 207 256 4848 |
|                                     |                  | Singapore                    | +65 533 34 10    |
|                                     |                  | Shanghai                     | +86 21 68236128  |
|                                     |                  | Hong Kong                    | +852 2525 9232   |
|                                     |                  | Prague                       | +420 2 6135 3535 |
| CSOB Economics – Markets Prague     |                  |                              |                  |
| Jan Cermak                          | +420 2 6135 3578 |                              |                  |
| Jan Bures                           | +420 2 6135 3574 |                              |                  |
| Petr Baca                           | +420 2 6135 3570 |                              |                  |
| CSOB Economics – Markets Bratislava |                  | Bratislava                   |                  |
| Marek Gabris                        | +421 2 5966 8809 |                              | +421 2 5966 8820 |
| K&H Economics – Markets Budapest    |                  | Budapest                     |                  |
| David Nemeth                        | +36 1 328 9989   |                              | +36 1 328 99 85  |

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