



Wednesday, 22 October 2025

KBC Sunrise Market Commentary

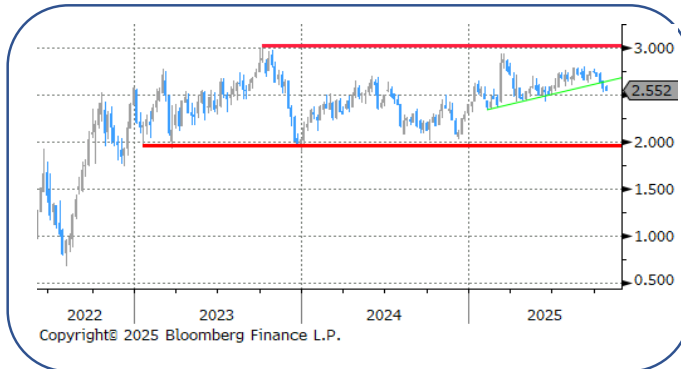
Markets

- The **risk rebound** from last week's trade and credit related noise yesterday **fizzled out**. US equity indices closed little changed, but kept all-time record levels within reach. The **EuroStoxx50 intraday even touched a minor new record**. Equity investors apparently are in a process of switching focus between macro themes (trade frictions, private & government debt sustainability ...) on the one hand, and corporate earnings on the other. For now, hick-ups in one storyline mostly have (easily) been counterbalanced by the other pillar. **Bond investors** already for some time **take a more cautious approach**. With little in the way of policy relevant eco news published in the US, it is difficult to assess the real reason for the divergent bond market approach. That said, **the gradual but protracted decline in core yields still also causes a further easing in financial conditions**. This pattern at some point might reach its limits. However at least for now, it continues. The information stop in the US probably facilitates it as it is hardly challenged. Whatever the driver, **US yields yesterday continued their gradually, but protracted downtrend** moving from little changed (2-y) to 2.6 bps lower (30-y). Especially, support levels at the long of the US curve are at risk of a (sustained) break (10-y 4%; 30-y 4.6%). **German/ EMU yields show a similar pattern**. After recent decline/ repositioning, for now there is little reason to anticipate more potential ECB easing. The German 2-y yield closed unchanged yesterday. **At the long end, lower yields also still was the path of least resistance (30-y -3.6 bps)**. The dollar continued its rebound from last week's (US risk-off driven) setback with the DXY nearing the 99 barrier (close 98,93). EUR/USD returned to the 1.16 big figure. The yen underperformed as the new government is expected to implement a growth supportive policy, with the BoJ in no hurry to aggressively step up policy normalization. Both USD/JPY (151.9 from 150.75) but also EUR/JPY (176.24 from 175.5) gained. We also take notice of quite a sharp correction in the likes of silver and gold. Oil tries to find a bottom (Brent \$62.3 p/b)
- Asian equities show no unequivocal directional pattern this morning. The yen stabilizes (USD/JPY 151.9) as Japanese PM Takaichi orders a new package to address the cost of living crisis. The eco calendar is again thin. The US Treasury will sell \$ 13 bln of 20-y Notes. UK inflation data of September avoided an expected rise, with headline inflation at 0% M/M and 3.8% Y/Y (unchanged vs 4% expected). Core inflation (3.5% Y/Y from 3.6%) even eased. Services inflation was unchanged at 4.7%. The September data are supposed to be the peak in this cycle. The better starting point provided by today's data probably reinforces the case for BoE governor Bailey to give some more weight to a weaker labour market at the November 6 meeting. **A rate cut might be a closer call than the low probability markets are currently discounting**. EUR/GBP jumps from the 0.868 area to test the 0.87 big figure.

News & Views

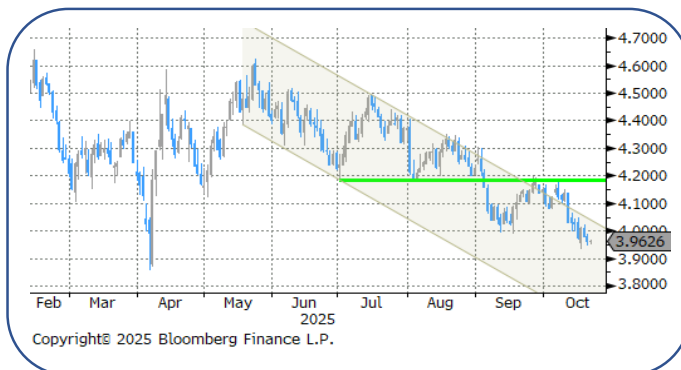
- The **Indian newspaper Mint**, citing people familiar with the matter, said that the **US and India are nearing a trade deal that could cut tariffs on exports to 15-16%**. President Trump raised the levy to 50% a couple of weeks ago, up from the initial 25% to pressure the country to stop buying Russian oil. New Delhi started buying Russian oil in major quantities and at a discount after Moscow's invasion in 2022. The Mint said that **India may now agree to gradually reduce its Russian oil imports adding that it would also tear down own trade barriers to allow for more US corn and soymeal imports**. The newspaper floated next week's Association of Southeast Asian Nations summit in Malaysia as an opportunity to announce the deal.
- The Hungarian central bank (MNB) kept the policy rate as expected at 6.5%** yesterday. It **has a pretty downbeat view on the current economic conditions** with retail sales slowing down, industrial production volumes falling and construction cratering since the last policy meeting. Next year, however, things should improve both internally (domestic consumption and investments) and externally (rising exports). **Inflation last month stood at 4.3% in September and household inflation expectations remain elevated**. The MNB expects CPI to remain above the tolerance band of 3% +1 ppt, despite government policy that prompted mandatory and voluntary price restrictions. **The central bank noted strong corporate repricings on products outside the government's scope**. It considers tight monetary conditions still necessary to achieve a sustained return to the inflation target, currently estimated to happen in early 2027. The forint barely budged to trade near the strongest levels in a year around EUR/HUF 390.

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.



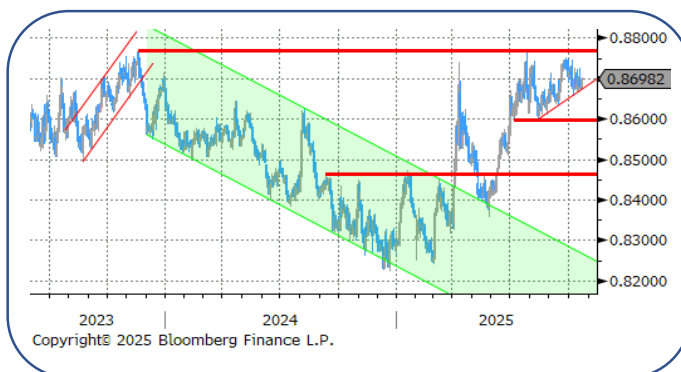
US 10y yield

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

Wednesday, 22 October		Consensus	Previous
US			
13:00	MBA Mortgage Applications	--	-1.80%
Japan			
1:50	Trade Balance Adjusted (Sep)	-¥314.3bA	-¥171.2bR
1:50	Exports/Imports YoY (Sep)	4.20%A/3.30%A	-0.10%/-5.20%
UK			
10:30	House Price Index YoY (Aug)	--	2.80%
8:00	CPI MoM/YoY (Sep)	0.10%/4.00%	0.30%/3.80%
8:00	CPI Core YoY (Sep)	3.70%	3.60%
8:00	CPI Services YoY (Sep)	4.80%	4.70%
8:00	CPIH YoY (Sep)	4.20%	4.10%
8:00	RPI MoM/YoY (Sep)	-0.20%/4.70%	0.40%/4.60%
8:00	PPI Output NSA MoM/YoY (Sep)	0.20%/3.60%	0.20%/2.90%
8:00	PPI Input NSA MoM/YoY (Sep)	0.20%/0.80%	-0.20%/-0.10%
Belgium			
11:00	Consumer Confidence Index (Oct)	--	-1
Events			
Q3 earnings	Alcoa (aft-mkt), Tesla (aft-mkt), IBM (aft-mkt) ...		
20OCT-XX	US government data impacted by shutdown		
22OCT	ECB's Nagel Speaks in New York		
11:30	Germany to Sell Bonds		
14:25	ECB's Lagarde Speaks in Frankfurt		
19:00	U.S. To Sell USD13 Bln 20-Year Bond		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
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	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
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	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
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			

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