



Thursday, 23 October 2025

KBC Sunrise Market Commentary

Markets

- UK inflation data illustrated yesterday that **market-/policy relevant data still have the potential to move markets**. UK Gilts decisively outperformed Bunds and Treasuries after less worse than feared UK September inflation data. UK headline inflation at 3.8% avoided a spike toward the 4% psychological barrier. The core measure even unexpectedly eased to 3.5% from 3.7%. Gilt yields declined between 9.1 bps (2-y) and 4.5 bps (30-year). **The debate on the pace/timing of follow-up BoE easing is again open**. Markets see a chance of about 70% for a December rate cut. The odds for a November cut rose from 10% to about 1 in 3. We assume it might be a closer call, subject to the BoE's assessment of the content of the new policy report that accompanies the November decision. Admittedly, recent BoE worries on financial stability and leverage in some parts of the financial system to some extent also might play in the background. Lower inflation might be relatively better news for the UK budget via (inflation-linked) interest rate payments and expenses. **This probably helps to explain the rather orderly market reaction of sterling to the loss of interest rate support**. After an initial spike from the 0.8675 area to 0.8710, EUR/GBP finally eased back just below 0.87. (close 0.869). **US and EMU markets didn't 'enjoy' this kind of market relevant data releases**. The risk rebound since last week's (trade/credit-related) noise finally ran into resistance with US equity indices easing between 0.53% (S&P) and 0.93% (Nasdaq). Moves in US and EMU German bond markets this time were limited. US yields declined marginally (1 bp across the curve). A \$13bn 20-y US Treasury auction met decent investor buying interest. **German bonds took a breather** after their recent rally with yields 'rising' between 0.1 bp (2-y) and 1.9 bps (30-y). The oil price jumped about \$3/b as the US announced sanctions against two Russian oil majors (cf infra). However, the **direct impact on bond and FX markets was limited**. Following an initial gain, DXY closed the session marginally lower at 98.9. EUR/USD 'gained' to close at 1.1611 compared to 1.1600. A similar insignificant move for USD/JPY (close 152).
- Most Asian equity markets are trading with a risk-off bias this morning**. Headlines that the US is considering broad export restrictions on China with respect to critical software again rekindles **trade uncertainty**. Markets also still might assess the broader impact of the US sanctions against Russian oil majors. Regular US data publications will again be limited. **An EU summit** in Brussels plans to address **a wide range of topics** ranging from the response to the war in Ukraine, over EU defense, the situation in the Middle East, competitiveness, housing and migration,... However, it is far from sure the debate will yield any direct input for markets. **We look out whether a (mild) risk-off supports further gains in core bonds**. For now, the dollar at least shows no unequivocal reaction function.

News & Views

- The US imposed further sanctions on Russia** yesterday as a result the country's lack of serious commitment to a peace process to end the war in Ukraine. **The actions target Russia's two largest oil companies, Rosneft and Lukoil**. The US increases pressure on Russia's energy sector to degrade the Kremlin's ability to raise revenue for its war machine and support its weakened economy. The sanctions freeze all US-based assets of both oil companies and their subsidiaries and prohibit US persons from engaging in financial transactions with them. Last week, the UK unleashed strongest sanctions yet on Russia by also directly targeting both oil majors. **The EU is set to announce its 19th package against Moscow, including a ban on imports of Russian LNG**. Oil prices rose after the announcement with Brent crude moving from \$62/b to \$65/b..
- The Bank of Korea kept its policy rate unchanged at 2.5%**. The central bank maintained its growth forecasts at 0.9% for this year and 1.6% for next while inflation is expected to stay anchored near the 2% target. **The central bank kept its easing bias going forward with 4 out of 7 board members leaning to a 25 bps rate cut in the next three months** while 2 preferred a steady course because of rising financial stability risks linked to the hot (Seoul) housing market. Previously, the split was 5-1. BoK Rhee doesn't disclose his own views. The Korean won weakens this morning against an overall firm dollar with USD/KRW touching 1440 for the first time since May.

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.



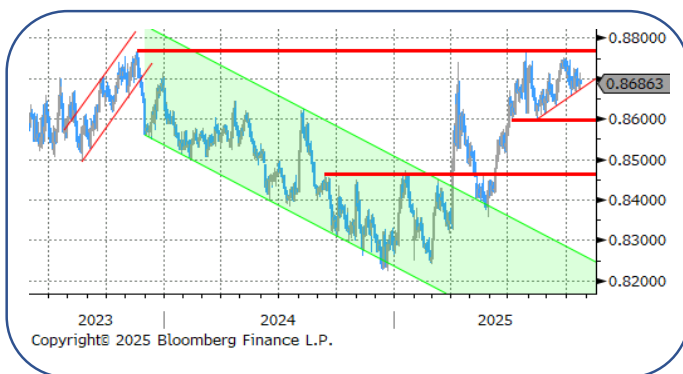
US 10y yield

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

Thursday, 23 October		Consensus	Previous
US			
14:30	Initial Jobless Claims	225k	218k
14:30	Continuing Claims	--	--
16:00	Existing Home Sales Total/MoM (Sep)	4.06m/1.50%	4.00m/-0.20%
17:00	Kansas City Fed Manf. Activity (Oct)	--	4
UK			
12:00	CBI Trends Total Orders (Oct)	-28	-27
12:00	CBI Trends Selling Prices (Oct)	5	4
12:00	CBI Business Optimism (Oct)	-27	-27
EMU			
16:00	Consumer Confidence (Oct P)	-15.0	-14.9
France			
8:45	Business Confidence (Oct)	96	96
8:45	Manufacturing Confidence (Oct)	96	96
8:45	Production Outlook Indicator (Oct)	-13	-14
Norway			
08:00	Unemployment Rate trend (Sep)		4.70%
Events			
Q3 earnings	Ford Motor (22:05), Intel (aft-mkt) ...		
20OCT-XX	US government data impacted by shutdown		
23-29OCT	ECB enters quiet period		
14:00	ECB's Lane Receives Award in Dublin		
14:30	Chicago Fed National Activity Delayed by Government Shutdown		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	3,95	-0,01		US	3,44	-0,01	DOW	46590,41	-334,33
DE	2,56	0,01		DE	1,91	0,00	NASDAQ	22740,4	-213,27
BE	3,12	0,01		BE	2,01	0,01	NIKKEI	48663,63	-644,16
UK	4,42	-0,06		UK	3,77	-0,09	DAX	24151,13	-178,90
JP	1,66	0,02		JP	0,94	0,01	DJ euro-50	5639,21	-47,62
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	3,17	3,52	€STR	1,9270	-0,0010			
5y	2,26	3,23	3,60	Euribor-1	1,8900	-0,0140	SOFR-1	4,0160	-0,0047
10y	2,58	3,51	3,92	Euribor-3	2,0660	0,0280	SOFR-3	3,8740	-0,0057
				Euribor-6	2,0990	-0,0110	SOFR-6	3,7040	-0,0030
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1611	0,0011		EUR/JPY	176,46	0,22	CRB	297,93	2,52
USD/JPY	151,98	0,05		EUR/GBP	0,8693	0,0016	Gold	4065,40	-43,70
GBP/USD	1,3356	-0,0015		EUR/CHF	0,9242	0,0004	Brent	62,59	1,27
AUD/USD	0,6488	0,0000		EUR/SEK	10,9219	-0,0113			
USD/CAD	1,3994	-0,0029		EUR/NOK	11,635	-0,0353			

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
CSOB Economics – Markets Prague		Prague	
Jan Cermak	+420 2 6135 3578		+420 2 6135 3535
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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