



Thursday, 06 November 2025

KBC Sunrise Market Commentary

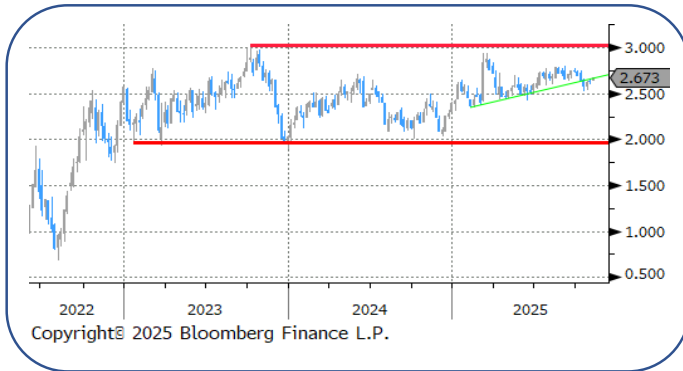
Markets

- The Bank of England has a reputation of daring to surprise.** It's nickname – unreliable boyfriend – is testament to that. Today we might see one of those upsets with **UK money markets discounting a 25% probability to a 25 bps rate cut, but the decision probably being a much closer call than that.** Much will depend on BoE governor Bailey's own views and/or his skills to build consensus around the decision. Over the past months, split vote after split vote highlighted the extreme division in the 9-headed MPC. Hawks including BoE chief economist Pill or Greene assess the still lingering inflation threat as key and don't want to err on the side of loosening the central bank's grip too early with the risk of igniting more price pressures with a less restrictive monetary policy. **Their main arguments lost strength** though over the past month with official September CPI inflation peaking at a lower level than feared and underlying dynamics showing a weakening impact from food inflation (also in preliminary October data). The latter has an outsized impact in shaping inflation expectations. Also arguing in favour of a steady outcome today is **uncertainty related to the November 26 Budget presentation by Chancellor Reeves.** The doves inside the BoE are more concerned about a **rapidly deteriorating UK labour market**, witnessed both by the official data and in the less formal business circuit often mentioned by BoE Bailey. Implementing the Fed's **"risk management" strategy** argues in favour of lower the policy rate today, especially if backed by a more benign inflation dynamic in the new quarterly Monetary Policy Report. The (negative) economic impact of the tax-lifting budget might also in the end be bigger than the (if any) inflationary effects. From a market point of view, we think that sterling is vulnerable both to a dovish pause and especially to an effective rate cut (our preferred scenario). UK money markets only fully discount another 25 bps move lower by the February 2026 meeting and only 50 bps of cumulative decreases over the next 12 months. EUR/GBP broke 0.8768/69 resistance last week with follow-up action levels above 0.88. The 2023-top at EUR/GBP 0.8979 is the next big reference.

News & Views

- The Brazilian central bank left its policy rate unchanged at 15% for a third consecutive meeting. Vigilance remains warranted, but the tone of the communiqué shows some more comfort that **'maintaining the interest rate at its current level for a very prolonged period will be enough to ensure the convergence of inflation to the target'**. In September, the central bank still formulated this assessment in a more conditional way. With respect to the domestic economy, the BCDB sees economic growth moderating but the labor market is still showing strength. Headline inflation and measures of underlying inflation have shown some improvement but like inflation expectations for 2025 (4.5%) and 2026 (4.2%) remain above the 3% inflation target. Inflation projections show a declining path from 4.8% for this year and 3.6% for next to 3.3% at the end of the policy horizon (Q2 2027; from 3.4% in September). The real (USD/BRL 5.357) is holding strong after already a good rally against the dollar earlier this year (YTD + 13.5%)
- The National Bank of Poland (NBP) yesterday further reduced its policy rate by 25 bps to 4.25%.** The NBP says that taking into account **a decline in inflation and an improved inflation outlook** for the coming quarters, in the Council's assessment, it became justified to adjust the level of the NBP interest rates. October CPI inflation declined to 2.8% Y/Y (from 2.9% in September 2025), largely due to lower annual growth of food prices, but the NBP estimates that inflation net of food and energy prices also decreased, even as services price growth remains elevated. In its new forecast, the NBP sees the 2025 inflation target range at 3.6-3.7% (from 3.5%-4.4%). For 2026 the range is set at 1.9%-4% (from 1.7%-4.5%) and for 2027 at 1.1%-4.1% (from 0.9%-4.3%). The NBP has an inflation target of 2.5% (+/- 1%). Further decisions of the Council will depend on incoming information regarding prospects for inflation and economic activity. Fiscal policy, recovery of demand in the economy and elevated wage growth remain risk factors for low inflation. Uncertainty stems also from the level of energy prices and inflation developments abroad. The zloty yesterday gained modestly after the decision closing near EUR/PLN 4.256.

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.



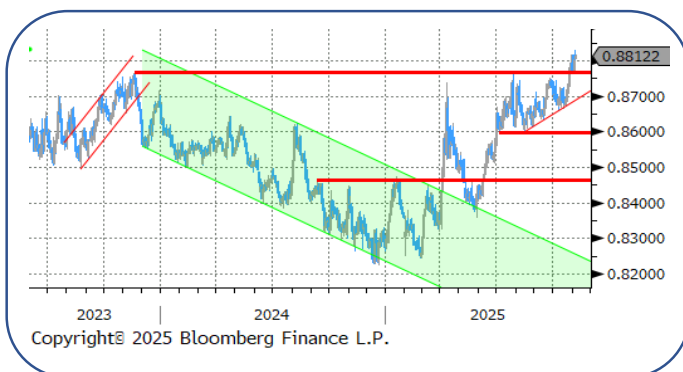
US 10y yield

The Fed's **focus shifted with increased attention for (risks to) the labour market**. The Fed resumed rate cuts in September & October. December is a coin toss. QT will end in December but proceeds from maturing bonds are skewed to Tbills, in theory supporting a further curve steepening even as the budgetary impact of **President Trump's big, beautiful bill moved to the background (for now)**. 4% support in the 10-y yield survives 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 MT.



EUR/GBP

Sterling snapped through multiple support zones, pushing EUR/GBP to its highest levels since early 2023. **Slowing food inflation strips hawks at the BoE of key arguments not to lower rates**. Markets were positioned for the BoE to ease even more gradual than the current quarterly pace and are now adjusting their views. Lingered fiscal risks going into end-November's Autumn Budget continue to weigh on GBP in the background.

Calendar & Table

Thursday, 06 November		Consensus	Previous
US			
13:30	Challenger Job Cuts YoY (Oct)	--	-25.80%
14:30	Nonfarm Productivity (3Q P)	3.40%	3.30%
14:30	Unit Labor Costs (3Q P)	0.90%	1.00%
14:30	Initial Jobless Claims	225k	--
14:30	Continuing Claims	1948k	--
Japan			
0:30	Real/Labor Cash Earnings YoY (Sep)	-1.50%/2.00%	-1.40%/1.50%
0:30	Cash Earnings Same Sample Base YoY (Sep)	--	1.90%
0:30	Scheduled Full-Time Pay Same Base YoY (Sep)	2.50%	2.40%
1:30	S&P Global Japan PMI Composite (Oct F)	--	50.9
1:30	S&P Global Japan PMI Services (Oct F)	--	52.4
UK			
13:00	Bank of England Bank Rate	4.00%	4.00%
15:00	DMP 3M Output Price Expectations (Oct)	--	3.70%
15:00	DMP 1 Year CPI Expectations (Oct)	--	3.40%
EMU			
11:00	Retail Sales MoM/YoY (Sep)	0.20%/0.90%	0.10%/1.00%
Germany			
8:00	Industrial Production SA MoM/WDA YoY (Sep)	3.00%/0.10%	-4.30%/-3.90%
Czech Republic			
14:30	Repurchase Rate	3.50%	3.50%
Norway			
10:00	Deposit Rates	4.00%	4.00%
Sweden			
8:00	CPI MoM/YoY (Oct P)	0.10%/0.80%	0.00%/0.90%
8:00	CPIF MoM/YoY (Oct P)	0.20%/2.90%	0.10%/3.10%
8:00	CPIF Excl. Energy MoM/YoY (Oct P)	0.10%/2.60%	0.10%/2.70%
Events			
Q3 earnings	ArcelorMittal (bef-mkt), Rheinmetall (bef-mkt), MP Materials (aft-mkt), Peloton (aft-mkt) ...		
9:00	ECB's Kocher Speaks in Vienna		
9:00	ECB's Schnabel Speaks in Frankfurt		
9:30	ECB's Guindos Speaks in Webinar		
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
12:45	ECB's Villeroy Speaks in Lyon		
13:30	ECB's Nagel Speaks in Frankfurt		
15:00	ECB's Nagel Speaks in Frankfurt		
17:00	Fed's Williams speaks at Goethe University Frankfurt		
17:00	Fed's Barr Participates in Moderated Discussion		
18:00	Fed's Hammack Speaks at the Economic Club of New York		
19:30	ECB's Lane Speaks on Washington Panel		
21:30	Fed's Waller in Panel on Central Banking and Payments		
22:30	Fed's Paulson speaks on Consumer Finance Institute		
23:30	Fed's Musalem Speaks at a Fireside Chat on Monetary Policy		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,16	0,07		US	3,63	0,05	DOW	47311	225,76
DE	2,67	0,02		DE	2,00	0,01	NASDAQ	23499,8	151,16
BE	3,21	0,02		BE	2,07	0,01	NIKKEI	50883,68	671,41
UK	4,46	0,04		UK	3,80	0,02	DAX	24049,74	100,63
JP	1,68	0,02		JP	0,94	0,01	DJ euro-50	5669,13	8,93
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	2,23	3,39	3,58	€STR	1,9290	-0,0020			
5y	2,38	3,45	3,66	Euribor-1	1,8650	-0,0160	SOFR-1	3,9690	-0,0188
10y	2,68	3,72	3,97	Euribor-3	1,9900	-0,0240	SOFR-3	3,8766	0,0012
				Euribor-6	2,1300	-0,0040	SOFR-6	3,7945	0,0213
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1492	0,0010		EUR/JPY	177,12	0,68	CRB	302,28	-1,90
USD/JPY	154,12	0,45		EUR/GBP	0,8806	-0,0012	Gold	3992,90	32,40
GBP/USD	1,305	0,0029		EUR/CHF	0,9311	0,0007	Brent	63,52	-0,92
AUD/USD	0,6505	0,0015		EUR/SEK	10,9905	-0,0107			
USD/CAD	1,4109	0,0005		EUR/NOK	11,7427	0,0024			

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