



Tuesday, 06 January 2026

KBC Sunrise Market Commentary

Markets

- European stocks extended gains in 2026, pushing the EuroStoxx50 to new record highs yesterday as investors squarely ignored the sudden flare up of geopolitical risk – as they usually do. Wall Street found a better bid after missing its start to the new year on Friday. The most important indices rose between 0.6% (S&P500) to 1.2%. The strong European and US performance followed an even more impressive one in Asia, where tech in particular pushed the likes of Japan's Nikkei to within striking distance of its October record high. **That bullish momentum continues this morning**, led by a hunger for (Chinese) technology shares. Gold joins the club (+0.34%) while oil steadies after staging a comeback to the \$61.7 area yesterday. The bear steepening in core bond curves took a breather. A sub-par manufacturing ISM in the US helped Treasuries extend earlier gains, resulting in net daily yield losses varying between 2 and 3.9 bps across the curve. The headline number unexpectedly dropped from 48.2 to 47.9, driven by a pullback in production (51 from 51.4) and especially inventories (45.2 from 48.9). Employment and new orders improved somewhat but remain in contraction territory. The German curve bull flattened, showing declines of 1.2 (2-yr) to 3.4 (30-yr) bps. We wouldn't call time on the 2025 steepening trend at all. **Fiscal policy remains expansionary in virtually all corners of the (advanced) world, resulting in huge financing needs to be covered** and potentially pressuring the long end of the curve (risk premia). Central banks meanwhile are either sidelined (ECB, BoE) or have skewed buying to shorter maturities for operational (not monetary) purposes only (Fed). Front end yields are more or less stuck in the European case with the ECB holding steady for months to come. French and German inflation numbers today, ahead of the euro area print tomorrow, won't change that. The case for the Fed will get shaped by this week's eco numbers. Yesterday's manufacturing ISM was merely an appetizer to the more dominant releases starting tomorrow. The next Fed cut is not fully priced in before June.
- FX markets showed little direction on Monday. The dollar initially held the upper hand against most peers, including the euro. EUR/USD hit an intraday low of 1.1659 but then started to rebound. The slightly disappointing ISM supported the turnaround, bringing the pair eventually back to 1.172 opening levels. DXY broke a six-day winning streak to finish at 98.27. Sterling was the top performer but for unclear reasons. EUR/GBP's attempt to claw back above 0.87 ended in tears. The 0.866 close was the lowest since mid-October. The duo broke below the lower bound of a downward sloping trend channel. The technical charts dictate a revisit of the 0.86 big figure.

News & Views

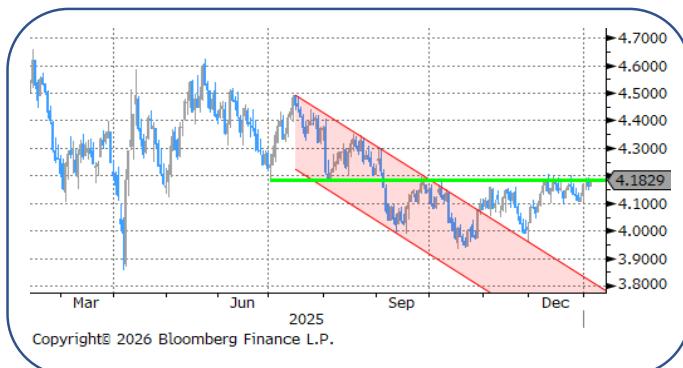
- The UK Treasury and Debt Management Office yesterday released a consultation document on the UK Treasury bill market.** It contains amongst others a questionnaire for market participants on expanding and deepening the T-bill market. The outcome may support the case for T-bills to play a larger role in the government's debt financing programme. At the end of 2024, bills made up around 3% of central government GBP debt. In the US for example, the T-bill market accounts for more than 20% of US debt. Any decisions taken around the expansion and deepening of the T-bill market will be communicated in the 2026-27 financial year. Last year, **the DMO already made a significant shift in UK Gilt issuance by cutting long-term bond sales in favor of shorter-dated ones.**
- The British Retail Consortium's (BRC) shop price index showed retail prices rising by 0.7% Y/Y in December, up from 0.6% Y/Y in November.** On a monthly basis, the overall price level was unchanged with falling non-food prices (-0.1% M/M) compensating for higher food costs (0.3% M/M) during the festive period. Compared to December 2024, UK food prices increased by 3.3% while the non-food segment remains in deflationary territory (-0.6% Y/Y). The CEO of the BRC said that **falling energy prices and improved crop supply should help ease some cost pressures in the year ahead, but increased public policy costs and regulation will likely keep inflation sticky.**

Graphs



GE 10y yield

Confidence that inflation is returning to 2% allowed the ECB to reduce its policy rate to 2%, reaching neutral territory. The ECB considers it to be in a good place to respond to potential shocks. Recent comments ever more indicate that the next ECB move will be a rate hike. Combined with ongoing higher (fiscal) risk premia, this supported a rebound in EMU yields.



US 10y yield

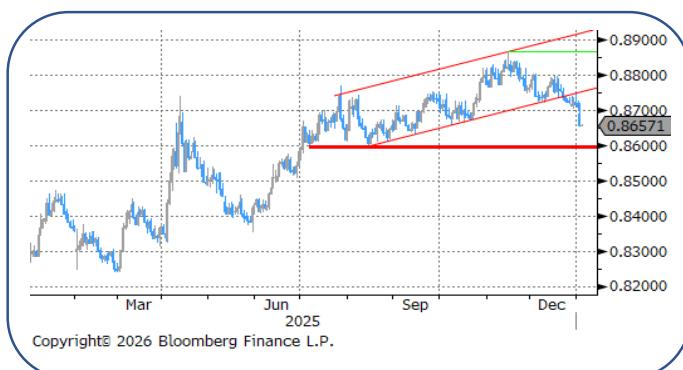
The Fed's focus shifted with increased attention for (risks to) the labour market with 25 bps rate cuts in September, October and December. The Fed now nears a neutral policy level, but the debate on further easing isn't finished yet. Some further steepening still might be on the cards even as the budgetary impact of President Trump's big, beautiful bill moved to the background.

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. A new sell-off was avoided after Chancellor Reeves' November's Autumn Budget, but we stick to our view that EUR/GBP will return towards the 0.90 handle.

Calendar & Table

Tuesday, 06 January			Consensus	Previous
Japan				
00:50	Monetary Base YoY (Dec)		-9.8%A	-8.50%
UK				
01:01	BRC Shop Price Index YoY (Dec)		0.70%A	0.60%
10:00	New Car Registrations YoY (Dec)		—	-1.60%
10:30	S&P Global UK Services PMI (Dec F)		52.1	52.1
10:30	S&P Global UK Composite PMI (Dec F)		52.1	52.1
EMU				
10:00	HCOB Eurozone Services PMI (Dec F)		52.6	52.6
10:00	HCOB Eurozone Composite PMI (Dec F)		51.9	51.9
Germany				
14:00	CPI MoM/YoY (Dec P)		0.30%/2.10%	-0.20%/2.30%
14:00	CPI EU Harmonized MoM/YoY (Dec P)		0.40%/2.20%	-0.50%/2.60%
France				
08:45	CPI EU Harmonized MoM/YoY (Dec P)		0.20%/0.70%	-0.20%/0.80%
Italy				
09:45	HCOB Italy Services PMI (Dec)		54.1	55
09:45	HCOB Italy Composite PMI (Dec)		53.0	53.8
Spain				
09:15	HCOB Spain Services PMI (Dec)		54.8	55.6
09:15	HCOB Spain Composite PMI (Dec)		54.3	55.1
Events				
04:35	Japan to Sell 10-Year Bonds			
10:00	ECB's Villeroy Speaks in Paris			
10:30	ECB's Cipollone Chairs Panel in Paris			
11:30	Germany to Sell Bonds			
14:00	Fed's Barkin Speaks on Economic Outlook			

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d
US	4,16	-0,03	US	3,45	-0,02	DOW	48977,18	594,79
DE	2,87	-0,03	DE	2,13	-0,01	NASDAQ	23395,82	160,19
BE	3,36	-0,04	BE	2,18	-0,02	NIKKEI	52518,08	685,28
UK	4,51	-0,03	UK	3,72	-0,01	DAX	24868,69	329,35
JP	2,14	0,01	JP	1,19	-0,01	DJ euro-50	5923,69	73,31
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d
3y	2,38	3,32	3,55	€STR	1,9330	-0,0030		
5y	2,57	3,44	3,67	Euribor-1	1,9760	0,0230	SOFR-1	3,6743
10y	2,93	3,79	4,02	Euribor-3	2,0340	0,0050	SOFR-3	3,6463
				Euribor-6	2,1040	-0,0010	SOFR-6	3,5755
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1722	0,0003	EUR/JPY	183,29	-0,55	CRB	302,72	4,90
USD/JPY	156,38	-0,46	EUR/GBP	0,8655	-0,0053	Gold	4451,50	121,90
GBP/USD	1,3542	0,0086	EUR/CHF	0,9281	-0,0007	Brent	61,76	1,01
AUD/USD	0,6714	0,0021	EUR/SEK	10,7591	-0,0424			
USD/CAD	1,3772	0,0039	EUR/NOK	11,7611	-0,0427			

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