Wednesday, 14 January 2026

KBC Sunrise Market Commentary

Markets

- Last week's payrolls ended the **debate on whether or not the Fed should further reduce its policy rate anytime soon.** They simply weren't weak enough for the US central bank to neglect the fact that it is taking too long to bring inflation back to its policy target. Yesterday's US inflation figures in this respect didn't bring profound new insights. **Headline inflation** was exactly in line with expectations at 0.3% M/M and 2.7% Y/Y. **Core inflation** was marginally softer than expected at 0.2% M/M and 2.6% Y/Y. In a first reaction, markets tried to embrace this perceived softness. However, with a lot of statistical noise from the shutdown playing on the background, markets soon concluded that it was **futile to try to draw any firm conclusions on the timing of the next Fed rate cut.** Except for political pressure, the Fed finds itself in a good place to wait and see. After rising slightly in the run-up to the release, US yields at the end of the day changed less than 1 bp across the curve. A $22bn 30-y bond auction didn't cause any ripples on broader interest rate markets. There's no indication that the debate on Fed independence has any material impact on LT US risk premia for now. European yields also found some kind of short-term equilibrium. German yields changed between -0.3 bps (2-y) and +1.7 bps (30-y). The lingering unease about Fed independence for now also has little negative impact on the dollar. DXY reversed Monday's setback (close 99.13). EUR/USD slipped back to close at 1.164. **Geopolitical considerations** add to the market conclusion that other majors including the euro aren't a real alternative to the dollar. In this respect, **metals** (gold, silver but also the likes of copper and tin) nearing/hitting record levels seem to reflect a better store of value.

- **The Japanese Takaichi trade continues this morning** after recent headlines suggesting that the Japanese Prime Minster might call snap elections, maybe as soon as next month. Japanese equities continue their record race (Nikkei + 1.5%). Japanese yields remain upwardly oriented. This time it's the turn of the 5-y yield to touch a new historic top (1.61%). The yen (USD/JPY 159.1) continues fighting an uphill battle as markets try to find out where Japanese authorities might step in with interventions. At least for now, this fear apparently isn't that big. **Later today,** the eco calendar contains December **US PPI price data and retail sales.** However, with the payrolls and the inflation data unable to move positioning, it is unlikely that those reports will do the job. Markets will also keep a close eye on the US Supreme Court which might bring a verdict on the US IEEPA import tariffs today. Markets also **prepare for the earnings season,** with some major US banks reporting Q4 resuts.

News & Views

- **China's trade surplus hit a record $1.2tn last year.** December's trade balance came in at $114.14bn, data showed this morning. 2025 was nothing but a bumper year for Chinese trade, with monthly surpluses having hit records in four of the 12 months. While US exports have fallen off a cliff due to import tariffs (-20% y/y for the full year of 2025, Bloomberg calculates), inbound shipments to Africa picked up sharply (by 26% y/y). China also got a bigger foothold in Southeast Asia (+13%), the EU (+8%) and Latin America (+7%). **Not only trade flows got rewired, the composition of exports did as well.** High(er)-value goods surged with the likes of semiconductors, cars and ships recording +20% gains. Toys, shoes and clothing on the other hand contracted.

- **The International Energy Agency in its monthly Short Term Energy Outlook Report expects that lower oil prices will cut US drilling activity and reduce the top producing country's output by 1% this year.** The IEA estimates Brent crude oil prices to average $56 a barrel this year, down from $69 in 2025 amid global production continuing to outpace demand, resulting in a buildup of inventories. This forecast was made **under the assumption of Venezuelan sanctions to remain in place through 2027.** If these are to be lifted further and other US government policy related to Venezuela leads to increased production in the oil rich Latin American country, oil prices could fall more steeply than currently expected, the IEA said.

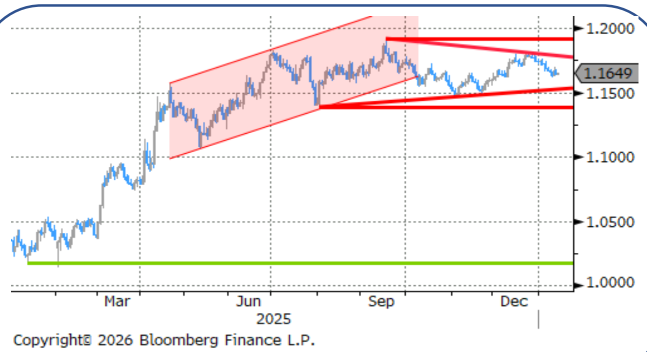
Graphs

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 might be a rate hike. Combined with ongoing higher (fiscal) risk premia, this supported a rebound in EMU yields.

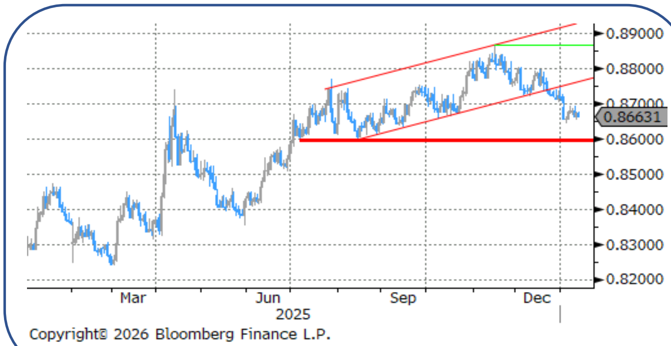
US 10y yield

The Fed's **focus shifted to 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.** 4.2% resistance is at risk of a break higher.



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 reduced 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

Wednesday, 14 January		Consensus	Previous
US			
14:30	**PPI Final Demand MoM/YoY (Nov)**	**0.20%/2.70%**	**--/--**
14:30	PPI Ex Food and Energy MoM/YoY (Nov)	0.20%/2.70%	--/--
14:30	PPI Ex Food. Energy. Trade MoM (Nov)	0.20%/2.90%	--/--
14:30	**Retail Sales Advance MoM (Nov)**	**0.50%**	**0.00%**
14:30	Retail Sales Ex Auto MoM (Nov)	0.40%	0.40%
14:30	Retail Sales Ex Auto and Gas (Nov)	0.30%	0.50%
14:30	Retail Sales Control Group (Nov)	0.40%	0.80%
16:00	Existing Home Sales Total/MoM (Dec)	4.22m/2.20%	4.13m/0.50%
China			
14JAN	Exports/Imports YoY (Dec)	6.60%A/5.70%A	5.90%/1.90%
14JAN	Trade Balance (Dec)	$114.14bA	$111.68b
Poland			
14JAN	**Poland Base Rate Announcement**	**4.00%**	**4.00%**
Sweden			
08:00	Industrial Orders MoM/NSA YoY (Nov)	--/--	4.70%/12.10%
08:00	Household Consumption MoM/YoY (Nov)	--/--	-0.90%/2.30%
Events			
Q4 earnings	Bank of America (12:45), Wells Fargo (13:00), Citi (14:00) ...		
04:35	Japan to Sell 5-Year Bonds		
09:20	ECB's Guindos Speaks in Madrid		
10:15	BOE's Alan Taylor Speaks		
11:30	Germany to Sell Bonds		
15:50	Fed's Paulson Speaks on Economic Outlook		
16:00	Fed's Miran Speaks in Athens		
16:30	BOE's Ramsden Speaks		
18:00	Fed's Kashkari Speaks in Virtual Town Hall		
18:00	Fed's Bostic Participates in Moderated Discussion		
20:10	Fed's Willliams Delivers Opening Remarks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,18	0,00		US	3,53	0,00	DOW	49191,99	-398,21
DE	2,85	0,01		DE	2,09	0,00	NASDAQ	23709,87	-24,03
BE	3,29	0,01		BE	2,14	0,00	NIKKEI	54341,23	792,07
UK	4,40	0,02		UK	3,66	0,00	DAX	25420,66	15,32
JP	2,19	0,01		JP	1,18	0,01	DJ euro-50	6029,83	13,53
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,34	3,39	3,50	€STR	1,9300	-0,0010			
5y	2,52	3,50	3,62	Euribor-1	1,9440	-0,0450	SOFR-1	3,6780	-0,0014
10y	2,86	3,83	3,97	Euribor-3	2,0160	-0,0040	SOFR-3	3,6739	0,0014
				Euribor-6	2,1430	0,0130	SOFR-6	3,6305	0,0018
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1642	-0,0025		EUR/JPY	185,29	0,78	CRB	306,64	2,60
USD/JPY	159,14	1,00		EUR/GBP	0,8674	0,0010	Gold	4599,10	-15,60
GBP/USD	1,3422	-0,0043		EUR/CHF	0,9327	0,0024	Brent	65,47	1,60
AUD/USD	0,6682	-0,0029		EUR/SEK	10,7398	0,0418			
USD/CAD	1,3891	0,0012		EUR/NOK	11,7497	0,0026			

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