Tuesday, 20 January 2026

KBC Sunrise Market Commentary

Markets

- **Greenland and all of its geopolitical consequences were top of mind yesterday.** Trump slapped EU/NATO allies with an additional 10% import levy, to be raised to 25% in June, until a deal/sale of the much-wanted island is reached. The blatantly coercive move prompted a backlash from European officials which now threaten to halt the approval of the US/EU trade deal, discuss tariffing some €93bn of US goods and mull to deploy the anti-coercion instrument. The latter is the nuclear option and is only to be used as a last resort, only when the diplomatic route (Davos talks!) has been exhausted. **US President Trump this morning said that he will meet with several parties during the upcoming World Economic Forum,** hailing that he had a very good phone call with NATO secretary general Rutte.

- While the Greenland crisis will continue to play this week, it's something else that catches most attention this morning: **a violent sell-off at the long end of the JGB curve. The Japanese 30-yr yield adds 24 bps. The Japanese 40-yr yield rises by a similar amount, breaching 4% in the process (4.21%).** The Japanese long end is suffering ever since **PM Takaichi** won LDP leadership elections end last year. The move accelerated on rumours about **snap elections to cement her position** (regaining absolute majority in lower house) and push through a stimulative fiscal agenda. An election date has been set for **February 8.** This week, **a proposal to suspend the sales tax on food (8%) for two years sent long term JGB's into tailspin. Weak demand at this morning's 20-yr bond sale added fuel to the fire.** There are spill-over effects to other bond markets. Both German and UK yield curves steepened yesterday with the long end adding around 3 bps. **US markets reopen after the long weekend (Martin Luther King Day) with the US 10-yr and 30-yr yields immediately 4.4 bps and 6.3 bps.** The US 10-yr yield confirms last Friday's technical break above important resistance at 4.2%. The US 30-yr yield (4.9%) rises to its highest level since early September with the psychologic 5% mark rapidly coming on the radar. Apart from the Japanese sell-off, the Greenland crisis also brings back **echoes to the Q2 sell America trade.** EUR/USD gradually creeps higher, from a 1.16 close last Friday to currently 1.1670. **France adopting a budget (see below) is slightly supportive for the euro-side of the equation.**

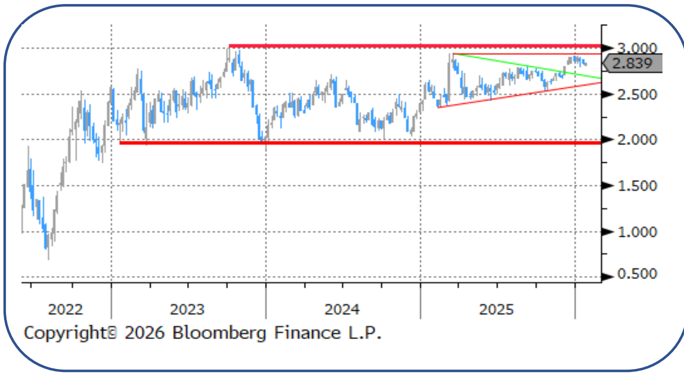
- **UK labour market data** kicked off this week's busy calendar this morning. The unemployment rate stabilized as expected at 5.1%. Employment change in the three months to November rose by a stronger than expected 82k (3M/3M), but monthly payrolls for December (-43k) disappointed. Overall, the employment data printed **near consensus, leaving no traces on UK markets.** EUR/GBP is marginally higher this morning, shadowing the EUR/USD move. There are no other meaningful data releases today. We especially **eye the fate of the long end of the UK/German/US yield curve to shape overall market moves.**

News & Views

- **Boris Vujcic, the head of the central bank of Croatia, secured the backing from EMU Finance Ministers to become next ECB vice president.** In this role he will replace Luis de Guindos from June 1st. It is the first time that a member from a former Eastern European country will obtain a seat in the six-member executive Board of the ECB. The appointment still has to be **formally approved by the leaders of the European Union** but they are expected to join the assessment of the Finance Ministers. Boris Vujcic is seen as one of the more hawkish members within the spectrum of ECB policy makers. Within the board, the positions of president, chief economist and head of market operations will also become vacant next year.

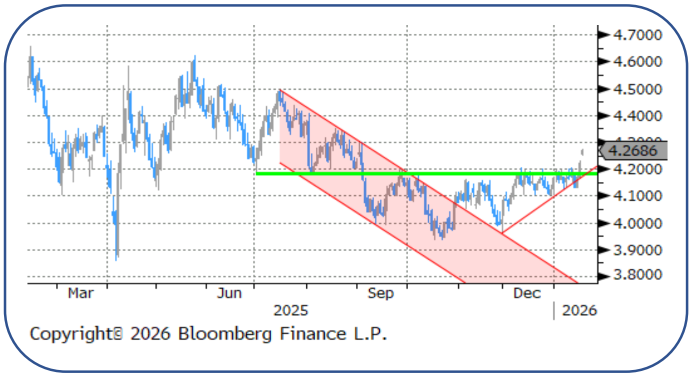
- **French Prime Minister Lecornu invoked Article 49.3 of the constitution to adopt the 2026 budget without a vote in parliament.** The government is now expected to face a no confidence vote on the use of the Article 49.3. The Socialist Party, which holds a small, but decisive, number of votes, is expected to abstain after getting more **concessions on spending and taxes.** That way, the absolute majority needed to topple the government is very unlikely to be reached. The government aims to cut the deficit from 5.4% of GDP last year to about 5% **of GDP this year.**

Graphs



GE 10y yield

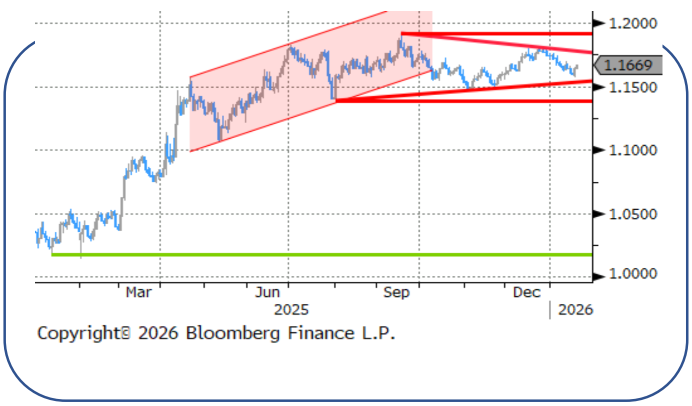
Confidence that inflation is returning to 2% **allowed the ECB to reduce its policy rate to 2%, reaching neutral territory.** The ECB considers it to be in a good place to respond to potential shocks. Recent comments ever more indicate that the next ECB move might be a rate hike. Combined with ongoing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



US 10y yield

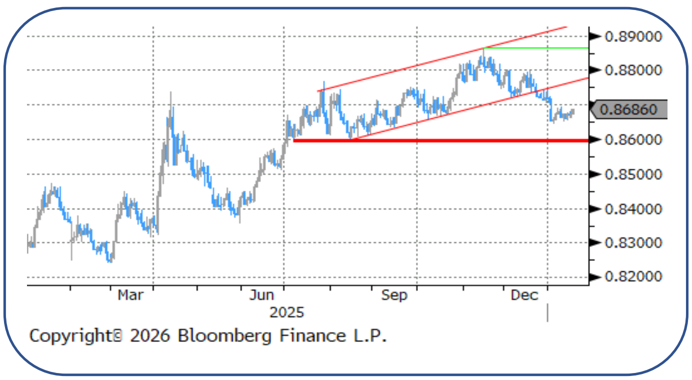
The Fed's **focus shifted to increased attention for (risks to) the labour market** with 25 bps rate cuts in September, October and December. The Fed now nears a neutral policy level, but the debate on further easing isn't finished yet. Some further steepening still might be on the cards as **focus returns to US risk premia.**

4.2% resistance is at risk of a break higher.



EUR/USD

In 2025, 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. However, recently **the dollar regained a better bid**. Despite political pressure, the Fed holds a gradual approach on further easing. Geopolitical tensions so far didn't help the euro, but the Greenland narrative warrants close monitoring.



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 Autumn Budget, but we stick to our view that EUR/GBP will return towards the 0.90 handle.

Calendar & Table

Tuesday, 20 January		Consensus	Previous
US			
14:15	ADP Weekly Employment Change	--	11.750k
14:30	Philadelphia Fed Non-Manufacturing Activity (Jan)	--	-21.6R
UK			
08:00	Average Weekly Earnings 3M/YoY (Nov)	4.60%	4.70%
08:00	Weekly Earnings ex-Bonus 3M/YoY (Nov)	4.50%	4.60%
08:00	**ILO Unemployment Rate 3Mths (Nov)**	**5.10%**	**5.10%**
08:00	**Employment Change 3M/3M (Nov)**	**31k**	**-16k**
08:00	Payrolled Employees Monthly Change (Dec)	-20k	-38k
08:00	Claimant Count Rate (Dec)	--	4.40%
08:00	Jobless Claims Change (Dec)	--	20.1k
EMU			
11:00	ZEW Survey Expectations (Jan)	--	33.7
Germany			
08:00	PPI MoM/YoY (Dec)	-0.2%/-2.40%	0.00%/-2.30%
11:00	ZEW Survey Expectations (Jan)	50.0	45.8
11:00	ZEW Survey Current Situation (Jan)	-76.0	-81
China			
02:00	1/5-Year Loan Prime Rate	3.00%/3.50%	3.00%/3.50%
Events			
Q4 earnings	3M (bef-mkt), Netflix (22:01) ...		
04:35	Japan to Sell 20-Year Bonds		
10:45	BOE Policymakers Speak on Financial Stability		
17:30	ECB's Nagel, SNB's Schlegel, CBI's Yaron Speak on Davos Panel		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,22	0,00		**US**	3,59	0,00	**DOW**	49359,33	0,00
DE	2,84	0,00		**DE**	2,08	-0,03	**NASDAQ**	23515,39	0,00
BE	3,41	-0,01		**BE**	2,13	-0,03	**NIKKEI**	52991,1	-592,47
UK	4,42	0,01		**UK**	3,68	0,00	**DAX**	24959,06	-338,07
JP	2,34	0,08		**JP**	1,22	0,00	**DJ euro-50**	5925,82	-103,63
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	2,35	3,45	3,54	**€STR**	1,9290	-0,0010			
5y	2,53	3,56	3,66	**Euribor-1**	1,9580	-0,0270	**SOFR-1**	3,6692	0,0000
10y	2,87	3,86	4,00	**Euribor-3**	2,0290	-0,0040	**SOFR-3**	3,6684	0,0000
				Euribor-6	2,1550	0,0120	**SOFR-6**	3,6319	0,0000
Currencies	Close	-1d		**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1,1646	0,0048		**EUR/JPY**	184,12	0,70	**CRB**	302,05	0,00
USD/JPY	158,11	-0,01		**EUR/GBP**	0,8674	0,0005	**Gold**	4595,40	0,00
GBP/USD	1,3425	0,0045		**EUR/CHF**	0,9287	-0,0027	**Brent**	63,94	-0,19
AUD/USD	0,6714	0,0031		**EUR/SEK**	10,721	0,0266			
USD/CAD	1,3869	-0,0045		**EUR/NOK**	11,717	0,0087			

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