Tuesday, 03 February 2026

KBC Sunrise Market Commentary

Markets

- The (USD) debasement trade last week was mainly driven by longer-term structural and (geo)political considerations. However, yesterday, for once, (US) eco data also again had a role to play. **The US January manufacturing ISM delivered an upward surprise that was too big to ignore.** The headline index jumped from 47.9 to 52.6 (48.5 expected). It was the first 50+ reading since January last year and **the best level since August 2022.** Almost all subindices supported the improvement (production 55.9 from 50.7; orders 57.1 from 47.4; backlog of orders 51.6 from 45.8). The employment series also improved but at 48.1 stayed below the 50-mark. The prices paid stayed at a high 59. The figure needs confirmation from tomorrow's services ISM, but **provides additional evidence that the US economy for now doesn't need 'emergency monetary support',** leaving the Fed in a good place to wait and see. **US yields already were upwardly oriented (Warsh-driven?) going into the release and extended gains afterward.** Yields closed the session 4-5 bps higher across the curve. The Treasury's estimated borrowing needs were published later in the session but didn't yield any major surprise ($574 bln borrowing this quarter from an estimated $578 set in November, including a higher $850 bln cash pile at the start; and $109 bln borrowing in Q2). The Q4 cash flow performance was $42 bln better than expected. **German Bund yields followed the US move at a distance with yields rising 2-3 bps across the curve.** The data also rubberstamped the intraday comeback of the USD dollar. EUR/USD closed the session at 1.179 (from 1.1856). DXY rebound further to 97.63. Both US and European equities apparently enjoyed renewed dip buying (S&P 500 +0.54%, less than 0.5% from all-time record; Eurostoxx 50 +1%). Metals including gold, silver and copper were/are looking for a bottom.
- This morning, (Asian) equity markets show an outright risk-on sentiment (Nikkei +3.92%; Kospi +6.84%, Nifty 50 + 2.97%). **A positive risk sentiment and metals rebounding currently caps further USD gains** (EUR/USD 1.181, USD/JPY 155.4). Risk sentiment probably will continue to set the tone for lobal trading today. The eco calendar is almost empty. The release of the US JOLTS Labour market data is delayed by the (partial) US government shutdown. We keep a close eye at the 'balance' between commodities/metals and the dollar. Maybe the latter is a bit better protected against a (potential) new upleg in metals as US eco data improve further.

News & Views

- There it is; **the first rate hike by a central bank in an advanced economy. The Reserve Bank of Australia (RBA) hiked the policy rate by 25 bps to 3.85%** this morning. Motivation was straightforward: "A wide range of data over recent months have confirmed that inflationary pressures picked up materially in the second half of 2025. While part of the pick-up in inflation is assessed to reflect temporary [e.g. the expiry of state electricity rebate schemes] factors, **it is evident that private demand is growing more quickly than expected, capacity pressures are greater than previously assessed and labour market conditions are a little tight."** Headline inflation increased to 3.6% y/y in 2025Q4 while underlying gauges accelerated to 3.4%. Both were (substantially) higher than the RBA expected. **Strong upward revisions result in CPI not returning to the 2-3% target before mid-2027.** GDP grew at around potential in 2025Q3 (2.1%) and probably quickened in the final quarter thanks to strong private demand. **Consumption growth** picked up by "much more" than expected in the November statement. The **Aussie dollar jumped back above AUD/USD 0.70 after losing that handle in the recent US dollar recovery.** The combo is trading around the strongest levels since early 2023. Australian swap yields rise 2.4-7 bps in a bear flattening move though gains (at the front) had been higher earlier (>10 bps). Money markets assume another rate hike at the June meeting (90%).

- **The US will cut tariffs on Indian imports to 18% from 50%,** president Trump announced yesterday. Indian exports suffered from the punitive rate of which 25 ppts was introduced in response to India buying Russian crude. The US president said India would no longer buy Russian oil and instead agreed to potentially buy more oil from Venezuela. **PM Modi confirmed the trade deal but stayed silent on the oil topic.** Trump claimed India would buy over $500bn in American goods (over 5 years). Annual amounts last year only totaled $40bn+ while total bilateral trade only amounted to $212bn in 2024. **Either way, the trade détente supports the Indian rupee which had been hitting record lows the last couple of weeks.** USD/INR gaps lower to 90.43 from 92 just a couple of days ago. Indian stock markets rise more than 3%.

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 LT 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 allowing for a longer pause, 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.** The US 10-yr yield broke through key resistance at 4.2%.

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 greenback's decline recently accelerated with EUR/USD hitting four-year highs. The Fed subpoenas, Greenland, and the US administration's (not so) hidden preference for a weaker USD have reignited long-lingering market concerns.

EUR/GBP

Sterling snapped through multiple support zones, pushing EUR/GBP in November last year 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 eco fundamentals limit sustained further sterling gains. Over time, EUR/GBP still might return towards the 0.90 handle.

Calendar & Table

Tuesday, 03 February		Consensus	Previous
Japan			
00:50	Monetary Base YoY (Jan)	-9.50%A	-9.80%
France			
08:45	**CPI EU Harmonized MoM/YoY (Jan P)**	**-0.20%/0.60%**	**0.10%/0.70%**
08:45	CPI MoM/YoY (Jan P)	-0.10%/--	0.10%/-0.80%
Australia			
04:30	**RBA Cash Rate Target**	**3.85%A**	**3.60%**
Events			
Q4 earnings	PepsiCo (12:00), PayPal (bef-mkt), CMP (22:10), AMD (aft-mkt), EA (aft-mkt) ...		
04:30	RBA-Statement on Monetary Policy		
04:35	Japan to Sell 10-Year Bonds		
10:00	**ECB Bank Lending Survey**		
11:30	Germany to Sell Bonds		
14:00	Fed's Barkin Speaks on US Economy		
15:40	Fed's Bowman in Moderated Conversation		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,28	0,04		US	3,57	0,05	DOW	49407,66	515,19
DE	2,87	0,02		DE	2,11	0,02	NASDAQ	23592,11	130,29
BE	3,39	0,02		BE	2,13	0,03	NIKKEI	54720,66	2065,48
UK	4,51	-0,02		UK	3,70	-0,02	DAX	24797,52	258,71
JP	2,26	0,02		JP	1,29	0,02	DJ euro-50	6007,51	59,70
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,35	3,44	3,60	€STR	1,9330	0,0070			
5y	2,53	3,56	3,75	Euribor-1	1,9590	-0,0090	SOFR-1	3,6697	-0,0010
10y	2,88	3,89	4,11	Euribor-3	2,0220	-0,0090	SOFR-3	3,6663	0,0063
				Euribor-6	2,1540	-0,0040	SOFR-6	3,6273	0,0173
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1791	-0,0060		EUR/JPY	183,49	0,06	CRB	305,14	-14,95
USD/JPY	155,63	0,85		EUR/GBP	0,8628	-0,0034	Gold	4652,60	-92,50
GBP/USD	1,3666	-0,0020		EUR/CHF	0,9195	0,0031	Brent	66,30	-3,02
AUD/USD	0,6948	-0,0016		EUR/SEK	10,5762	0,0073			
USD/CAD	1,3681	0,0068		EUR/NOK	11,4396	0,0203			

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 19
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		**Prague**	+420 2 6135 3535
Jan Cermak	+420 7 3704 4494		
Jan Bures	+420 6 0455 4876		
Dominik Rusinko	+420 7 2390 1089		
CSOB Economics – Markets Bratislava		**Bratislava**	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		**Budapest**	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at www.kbceconomics.be