Friday, 06 February 2026

KBC Sunrise Market Commentary

Markets

- Yesterday's trading session was expected to be an interlude for global trading, with **policy decisions of the likes of the ECB and the Bank of England** to provide some welcome distraction. **US labour market data** (Claims, Challenger layoffs, Jolts) were interesting, but not supposed to have the same weight as drivers for (bond markets) as is the case for the ISM's or the payrolls. However, this 'preview' didn't take into account the **ongoing AI-related repositioning, questioning valuations and business models in a wide range of affected sectors and triggering a broader risk-off. The ECB policy meeting did develop according to script.** The central bank left the policy rate at 2% and reconfirmed that it expects inflation to stabilize around target. It sounded optimistic on resilient growth. Risks both related to growth and inflation are seen as broadly balanced. On the euro, Chair Lagarde said that the ECB's assessment already incorporates the weaking of the dollar since March and downplayed the impact of recent swings (on inflation). The ECB is in a good place to wait-and see. German yields finished the day between unchanged (2-y) and -2.3 bps (30-y). **Interesting intraday price action in the UK:** the **curve move evolved from a bear steepening to a bull steepening.** During the morning session **UK risk premia jumped as uncertainty on the political fate of UK PM Starmer** rekindled the debate on fiscal sustainability. At some point the UK 30-y added 7 bps. Later, **BoE policy took over as a driver for trading.** The BoE as expected left its policy rate unchanged at 3.75%, but 4 out of the 9 MPC members already voted for a 25 bps rate cut. Inflation is seen returning to the 2% target around April and is expected to stay there. The central bank also remains highly sensitive to an easing of the labour market. UK yields nosedived during Governor Baileys press conference, but closed off the intraday lows. UK yields changed between -5.1 bps (2-y) and +4.2 bps (30-y). Markets now see a 60% chance for a 25 bps rate cut in March. None of both drivers (politics or BoE) was good news for sterling. EUR/GBP jumped from the 0.8650 are to close at 0.8705.
- In the US, **weak labour data** (claims from 209k to 231K, higher Challenger layoffs, lower job openings) **kickstarted quite an impressive rally in US Treasuries.** It has been different of late, but as the session proceeded**, US Treasuries for once fully played their safe haven role.** Uncertainty on **AI spending,** on its **impact on a broad range of other sectors** and **stretched market positioning** in several corners of the market, triggered a **broad-based risk-off move.** US equity indices dropped between 1.2% (Dow) and 1.59% (Nasdaq). However, also (precious) metals (gold, silver, copper) this time didn't provide any shelter. The run to Treasuries pushed US yields between 11.1 bps (5-y) and 7.6 bps (30-y) lower. The impact on FX was limited, with slightly US outperformance (DXY 97.82, EUR/USD 1.1777).
- Asian equity markets (ex Japan) mostly trade in red this morning as investors assess yesterday's AI driven risk-off. The global risk positioning probably remains the focal point for markets going into the weekend. We are keen to see whether the safe haven rally in (US) bonds can continue. The **eco calendar** contains ECB survey of professional forecasters and U. of Michigan consumer confidence (including inflation expectations). Markets also look forward to the outcome of the Japanese parliamentary elections and the reaction of Japanese bond markets and the yen.

News & Views

- **The Reserve Bank of India left its policy rate as expected unchanged at 5.25%.** Governor Malhorta indicated that the successful completion of trade deals augur well for the economic outlook. New Delhi signed a major deal with the EU and reached an agreement with the US which led to a reduction of reciprocal tariffs from 25% to 18% and the removal of a 25% tariff for buying Russian oil. **More comfort on the growth outlook is complemented by the benign inflation outlook and suggest that the RBI is now comfortable with sticking to current policy rate level** in coming months. The MPC agreed to retain a neutral stance.
- **Czech National Bank governor Michl** indicated the central bank discussed the possibility of rate cuts at yesterday's meeting even as the **updated forecast suggested rate stability in H1 2026.** The debate was obviously on fine-tuning rather than on large extra cuts. Michl signaled out an easing of Czech core CPI momentum as needed to return to action. Updated growth and (headline) inflation forecasts showed significant upgrades for growth and downgrades for price pressures (energy & ETS2?). Sticky core January inflation (released ahead of the CNB) pushed Czech (money) markets out of rapid easing bets. **CZK strengthened away from EUR/CZK resistance at 24.40 towards 24.25.**

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

Friday, 05 February		Consensus	Previous
US			
16:00	**U. of Mich. Sentiment (Feb P)**	**55.0**	**56.4**
16:00	U. of Mich. Current Conditions (Feb P)	53.7	55.4
16:00	U. of Mich. Expectations (Feb P)	55.1	57
16:00	U. of Mich. 1 Yr Inflation (Feb P)	4.00%	4.00%
16:00	U. of Mich. 5-10 Yr Inflation (Feb P)	3.30%	3.30%
Canada			
14:30	Full Time Employment Change (Jan)	--	50.2k
14:30	Part Time Employment Change (Jan)	--	-42.0k
14:30	**Net Change in Employment (Jan)**	**5.0k**	**8.2k**
14:30	Unemployment Rate (Jan)	6.80%	6.80%
14:30	Participation Rate (Jan)	65.40%	65.40%
14:30	Hourly Wage Rate Permanent Employees YoY (Jan)	3.70%	3.70%
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Dec)	-0.30%/1.90%	0.80%/0.80%
France			
08:45	Wages QoQ (4Q P)	0.30%	0.30%
Norway			
08:00	Industrial Production MoM/WDA YoY (Dec)	--/--	-2.20%/2.00%
08:00	Ind Prod Manufacturing MoM/WDA YoY (Dec)	--/--	2.40%/4.40%
Sweden			
08:00	**CPI MoM/YoY (Jan P)**	**0.40%/0.60%**	**0.00%/0.30%**
08:00	CPIF MoM/YoY (Jan P)	0.30%/2.10%	0.10%/2.10%
08:00	CPIF Excl. Energy MoM/YoY (Jan P)	-0.30%/1.90%	0.30%/2.30%
Events			
10:00	ECB Survey of Professional Forecasters		
10:00	ECB's Kocher Speaks in Vienna		
13:00	**BOE's Huw Pill Speaks**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,18	-0,09		US	3,45	-0,10	DOW	48908,72	-592,58
DE	2,84	-0,02		DE	2,10	0,00	NASDAQ	22540,59	-363,99
BE	3,38	0,00		BE	2,10	0,00	NIKKEI	54253,68	435,64
UK	4,56	0,01		UK	3,66	-0,05	DAX	24491,06	-111,98
JP	2,24	0,00		JP	1,29	0,00	DJ euro-50	5925,7	-44,77
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,34	3,31	3,57	€STR	1,9310	-0,0010			
5y	2,51	3,44	3,74	Euribor-1	1,9530	0,0050	SOFR-1	3,6645	-0,0025
10y	2,86	3,77	4,13	Euribor-3	2,0200	-0,0200	SOFR-3	3,6313	-0,0287
				Euribor-6	2,1720	0,0010	SOFR-6	3,5568	-0,0629
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1777	-0,0030		EUR/JPY	184,91	-0,29	CRB	309,36	-3,57
USD/JPY	157,04	0,18		EUR/GBP	0,8705	0,0059	Gold	4889,50	-61,30
GBP/USD	1,3531	-0,0123		EUR/CHF	0,9164	-0,0013	Brent	67,55	-1,91
AUD/USD	0,6927	-0,0071		EUR/SEK	10,6679	0,0581			
USD/CAD	1,3712	0,0049		EUR/NOK	11,5547	0,1407			

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