Thursday, 12 February 2026

KBC Sunrise Market Commentary

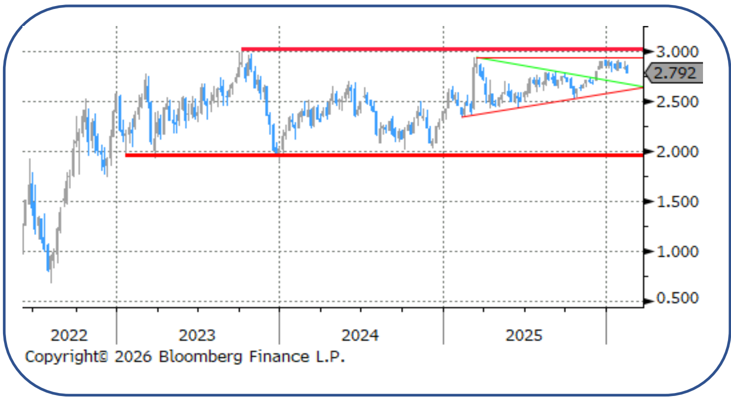
Markets

- The January jobs report blew past some of the most optimistic estimates, ending a sequence of disappointing (labour market) data since last week. While the 130k employment growth isn't exactly stellar, it was double the 65k expected and negatively skewed by continued job cuts at the government level (42k). Signs of labour market fragility were there, though. January employment was almost exclusively driven by the health care sector while the annual revision resulted in an average monthly job growth last year of just 15k instead of 49k. But combined with an unexpected drop in the unemployment rate to 4.3% even as the participation rate rose, **it forced a wrongfooted market into pushing back the next Fed rate cut to July from June again.** Kansas City Fed Schmid later offered counterweight to the recent string of mostly dovish Fed policymaker comments. He thinks the central bank should hold rates at a "somewhat restrictive" level, citing growth momentum and still-hot inflation. US yields rose but finished off the intraday highs. Net daily changes varied between 2.3-5.8 bps in a bear flattening move with a **tailed 10-yr auction** weighing on Treasuries too. German bunds outperformed. Rates initially rose in sympathy with the US but forfeited all (limited) gains later in the session to close -0.3 (2-yr) and -3.4 (30-yr) bps lower. **Dollar gains were unconvincing.** EUR/USD barely fell to close at 1.1872. DXY treaded water around 96.83. The Japanese yen extended this week's rebound to USD/JPY 153.26. Sterling's attempt to find some footing back below EUR/GBP 0.87 was in vein. Today's data won't help GBP either with **sub-par Q4 growth of a meagre 0.1% q/q** (1% y/y). Government spending did the heavy lifting. Private consumption was tepid, fixed capital formation fell and net exports contributed negatively (export drop, import rise).The remainder of the economic calendar has little to offer although a 30-yr Treasury auction and the US weekly jobless claims could offer some intraday volatility. They at least did so last week after an unexpectedly sharp jump. The real focus of US markets lies on **tomorrow's CPI though**. European investors are zooming in on the **informal European summit in Belgium.** Discussions center around the single (capital) market, increasing the bloc's competitiveness amongst others through deregulation and how to achieve that when you have 27, often conflicting, views (coalition of the willing?). Prior to the meeting, the likes of French president Macron and even BuBa chief Nagel steered towards joint EU debt to address some of the challenges.

News & Views

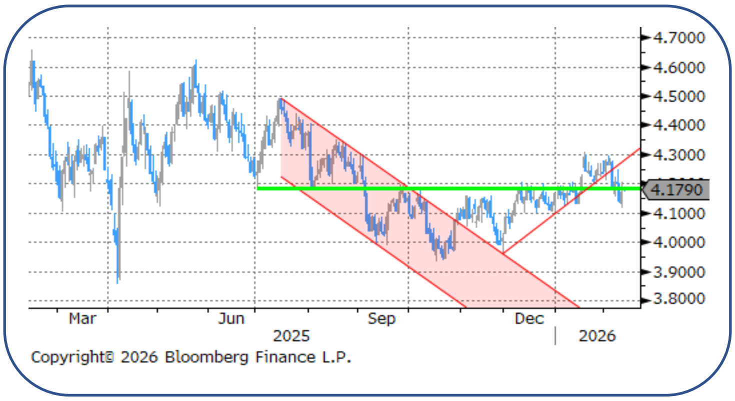
- **The US Congressional Budget Office yesterday released new forecasts for the budget and economic outlook for the period 2026-2035.** The budget deficit **would rise from $1.9tn in fiscal year 2025 to $2.7tn by 2035.** It temporarily drops from 6.2% of GDP in 2025 to 5.2% by 2027. In later years, **outlays increase faster than revenues, on average, resulting in a 6.1% of GDP deficit in 2035.** This is significantly more than the 3.8% average deficit over the past 50 years. Trump's tariffs – under the uncertain assumption of remaining in place through the coming decade – would reduce deficits by $3tn. This offsets some of the $4.7tn increase coming from his Big Beautiful Bill. Debt over the period swells as increases in mandatory spending and interest costs outpace revenue growth. The debt ratio is forecast to rise from 100% of GDP this year to 118% in 2035, surpassing its previous high of 106% in 1946. By 2035, net interest payments will grow to 4.1% of GDP, about one-sixth of all federal spending. The CBO's sees economic growth cooling from an estimated 2.3% in 2024 to 1.9% in 2025 and 1.8% in 2026 amid higher unemployment and lower inflation. Real GDP then grows by 1.8% per year, on average, through 2035. Roughly four-fifths of the growth over that period is due to increases in the productivity. The CBO sees the Fed reducing interest rates though 2026 (level set at 3.3% for 2027). It anticipates the 10-y US yield to ease towards 3.8%/3.9% over the forecasting period, with inflation (PCE) seen holding near the 2% level from 2027.
- According to a monthly survey on the economy by the Bank de France, **economic activity strengthened in January** in all three sectors - industry, market services and construction - **at a faster pace than the expectations expressed last month.** Industrial activity exceeded its long-term average for the eighth consecutive month, driven by the defence and aerospace sectors. **In February, business leaders expect their activity to increase at a sustained rate in industry, and more moderately in services and construction.** The monthly uncertainty indicator continues to fall in services and construction, but remains at a high level. It rose very slightly in manufacturing, reflecting the international climate and persistent geopolitical and trade tensions. The cash flow situation is still judged to be slightly worse than normal in industry, but is improving in the services sector. Based on the survey and other evidence, BdF estimates GDP to rise in 0.2%-0.3% in Q1.

Graphs



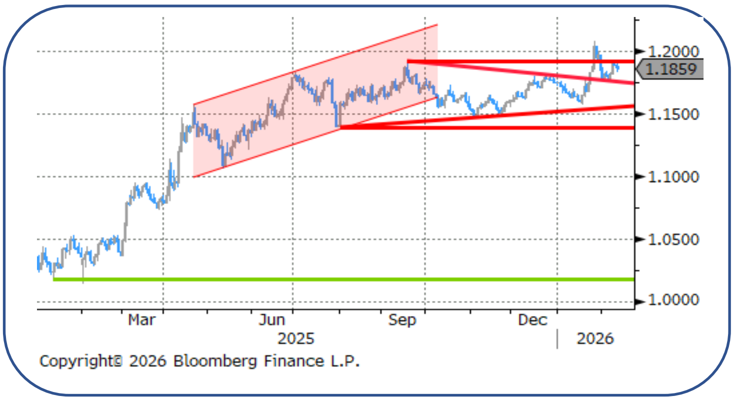
GE 10y yield

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.



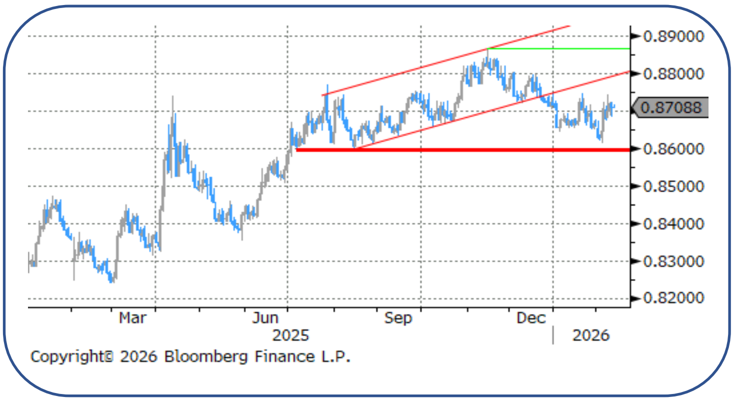
US 10y yield

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. That was particularly the case after a set of weaker-than-expected labour market data. Yields across the curve turned lower in response, with the 10-yr yield at risk of losing the 4.2% support again.



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

Thursday, 12 February		Consensus	Previous
US			
14:30	**Initial Jobless Claims**	**223k**	**231k**
14:30	Continuing Claims	1850k	1844k
16:00	Existing Home Sales (Jan)	4.25m	4.35m
16:00	Existing Home Sales MoM (Jan)	-4.60%	5.10%
Japan			
0:50	PPI MoM / YoY (Jan)	0.20%A/2.30%A	0.10%/2.40%
UK			
1:01	RICS House Price Balance (Jan)	-10%A	-13%A
8:00	**GDP QoQ / YoY (4Q P)**	**0.20%/1.20%**	**0.10%/1.30%**
8:00	Private Consumption QoQ (4Q P)	0.20%	0.30%
8:00	Government Spending QoQ (4Q P)	0.40%	0.40%
8:00	Gross Fixed Capital Formation QoQ (4Q P)	0.10%	1.30%
8:00	Exports QoQ (4Q P)	-0.50%	0.20%
8:00	Imports QoQ (4Q P)	0.20%	0.30%
8:00	Total Business Investment QoQ / YoY (4Q P)	-0.50%/--	1.50%/2.70%
8:00	Monthly GDP (MoM) (Dec)	0.10%	0.30%
8:00	**Industrial Production MoM / YoY (Dec)**	**0.00%/1.40%**	**1.10%/2.30%**
8:00	Manufacturing Production MoM (Dec)	-0.10%/1.70%	2.10%/2.10%
8:00	Index of Services MoM / 3M/3M(Dec)	0.10%/0.20%	0.30%/0.20%
8:00	Construction Output MoM / YoY (Dec)	0.50%/-0.10%	-1.30%/-1.10%
8:00	Visible Trade Balance GBP/Mn (Dec)	--	-£23711m
8:00	Trade Balance GBP/Mn (Dec)	--	-£6116m
Sweden			
6:00	PES Unemployment Rate (Jan)	3.80%A	3.80%
Events			
10:00	ECB's Cipollone Speaks in Rome		
11:00	Italy to Sell Bonds		
16:50	ECB's Radev, Stournaras, Lane Speak in Sofia		
19:00	**US to Sell $25bn 30-yr Bonds**		
20:30	ECB's Nagel Speaks in London		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,17	0,03		US	3,51	0,06	DOW	50121,4	-66,74
DE	2,79	-0,02		DE	2,07	0,00	NASDAQ	23066,47	-36,00
BE	3,31	-0,02		BE	2,07	-0,01	NIKKEI	57639,84	-10,70
UK	4,48	-0,03		UK	3,62	-0,02	DAX	24856,15	-131,70
JP	2,24	0,00		JP	1,31	0,00	DJ euro-50	6035,64	-11,42
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,29	3,36	3,54	€STR	1,9300	0,0010			
5y	2,47	3,46	3,70	Euribor-1	1,9940	0,0180	SOFR-1	3,6600	-0,0002
10y	2,81	3,77	4,08	Euribor-3	1,9940	0,0130	SOFR-3	3,6570	0,0237
				Euribor-6	2,1080	-0,0060	SOFR-6	3,6105	0,0495
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1872	-0,0023		EUR/JPY	181,94	-1,72	CRB	310,59	2,26
USD/JPY	153,26	-1,13		EUR/GBP	0,8711	-0,0008	Gold	5098,50	67,50
GBP/USD	1,3628	-0,0015		EUR/CHF	0,9161	0,0028	Brent	69,40	0,60
AUD/USD	0,7127	0,0052		EUR/SEK	10,5632	-0,0089			
USD/CAD	1,3576	0,0024		EUR/NOK	11,2617	-0,0675			

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		

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