Tuesday, 17 February 2026

KBC Sunrise Market Commentary

Markets

- **US investors return from the long President's weekend** with future markets this morning suggesting that **they'll pick up where they left on Friday. Benign January CPI numbers** extended a rally in US Treasuries with the front end (2-yr) at risk of giving away key support at 3.4%. The US 10-yr yield is drifting south to the psychological 4% mark. US money markets suggest more confidence that the Federal Reserve will have **leeway to lower its benchmark rate from 3.5%-3.75% to 2.75%-3% by year-end.** Today's thin US eco calendar (weekly ADP numbers and empire manufacturing survey) likely offers little counter-weight to the core bond rally. **Especially if risk sentiment hits another snag like equity futures currently suggest.** We'll scan **speeches by Fed governors** searching for clues about a shift in sentiment in the run-up to the March FOMC meeting. **SF Fed Daly and board governor Barr** speak during US trading hours. Daly has a more dovish profile and seems to put downside labour market risks ahead of upside inflation risks. She doesn't vote on policy though this year. Barr has no real track record when it comes to public comments on monetary policy. His voting record is a mirror image of the (majority) consensus. He talks on AI and the labor market at the NY Association for Business Economics in what could be an interesting speech when it comes to interpreting the evolving risk balance around the Fed's dual policy goals. **We'd err on the dovish side of current market pricing given that the next Fed rate cut is only fully discounted by July.**

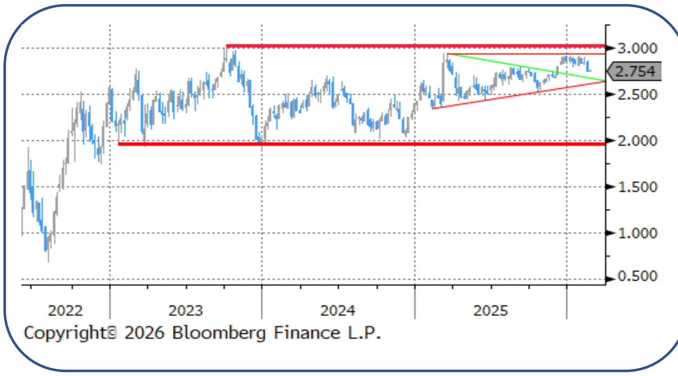
- **Japanese bonds join the global rally this morning with the curve bull flattening.** Yields fall by 4 bps (2-yr) to 8 bps (30-yr). The first auction of conventional JGB's (5-yr) since the LDP's huge election victory showed no signs of weakness. USD/JPY holds just below 153. **Sterling loses ground (EUR/GBP 0.8720) following monthly labour market data.** They show a further moderation in wage growth (4.2%). Weaker than expected employment growth from Q3 to Q4 2025 (+52k vs +108k expected) and January payrolls (-11k) point to a weakening labour market. The unemployment rate rose to 5.2% at the end of last year, only just below the post-pandemic peak of 5.3%. This morning's numbers will **add to March BoE rate cut bets** following the close call (5-4) to hold rates unchanged in February. More hawkish members often referred (more evidence of) wage moderation as an important factor to switch sides. British inflation numbers (tomorrow) and retail sales (Friday) are still on tap later this week.

News & Views

- **Australian central bank policymakers** noted **the economic outlook had *"materially shifted"*** when it decided to raise rates as the first major monetary authority (excluding the outlier that is the Bank of Japan) earlier this month. The minutes of that meeting released this morning showed that the case was built on a judgment that **part of the rise in inflationary pressures would persists amid greater capacity pressures.** It **flipped the balance of risks** around the board's both objectives of price stability and full employment. RBA members stopped short of flagging more hikes with the minutes stating that *"It was not possible to have a high degree of confidence in any particular path for the cash rate".* But inflation in the updated forecast would remain above the mid-point of the 2-3% target range, which policymakers said, if proved true, would mean **an extension to *"the already long period during which underlying inflation had mostly been above the target range".*** Both governor Bullock and deputy Hauser last week suggested **further tightening if price pressures would become entrenched.** The RBA next meets in March but May is probably more suitable in terms of another hike with Q1 inflation figures available by then.

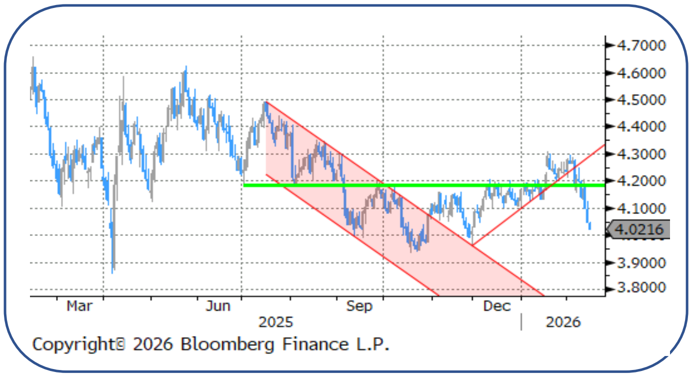
- **Fed vice-chair for supervision Michelle Bowman** yesterday announced **plans to ease US bank capital requirements in an effort to boost mortgage lending.** Bowman noted that mortgage activity over the past 15 years had **migrated to non-banks,** estimating banks' share in the US mortgage market fell from 60% of home loan origination in 2008 to 35% in 2023. She blamed this shift on *"over-calibration of the capital treatment for these activities",* which made *"mortgage activities too costly for banks to engage".* Among the changes considered are **adjusting the punitive 250% risk weighting for capital purposes** as well as **turning the standard capital calculation into a more variable one** that may take into account parameters such as the size of the loan relative to property value.

Graphs



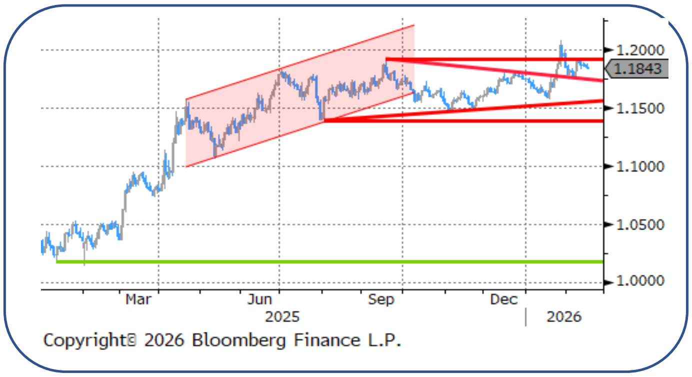
GE 10y yield

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.



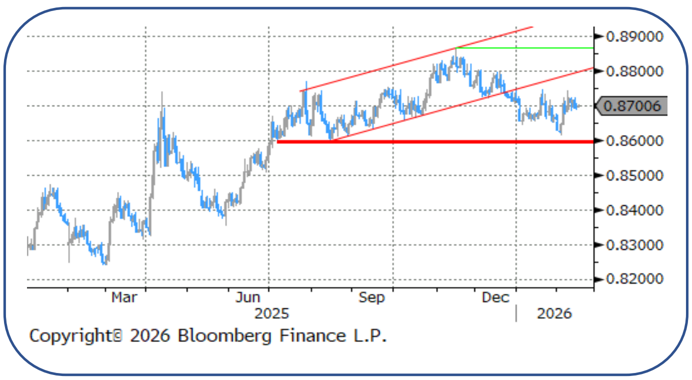
US 10y yield

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 losing 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

Tuesday, 17 February		Consensus	Previous
US			
14:15	**ADP Weekly Employment Change**	**--**	**6.5k**
14:30	**Empire Manufacturing (Feb)**	**6.2**	**7.7**
16:00	NAHB Housing Market Index (Feb)	38	37
Canada			
14:30	**CPI NSA MoM/YoY (Jan)**	**0.10%/2.40%**	**-0.20%/2.40%**
14:30	CPI Ex Food and Energy YoY (Jan)	2.60%	2.50%
14:30	CPI Core Median YoY% (Jan)	2.50%	2.50%
14:30	CPI Core Trim YoY% (Jan)	2.60%	2.70%
Japan			
05:30	Tertiary Industry Index MoM (Dec)	-0.50%A	-0.40%R
UK			
08:00	Average Weekly Earnings 3M/YoY (Dec)	4.60%	4.70%
08:00	Weekly Earnings ex-Bonus 3M/YoY (Dec)	4.20%	4.50%
08:00	Private Earnings ex-Bonus 3M/YoY (Dec)	3.40%	3.60%
08:00	**ILO Unemployment Rate 3Mths (Dec)**	**5.10%**	**5.10%**
08:00	**Employment Change 3M/3M (Dec)**	**108k**	**82k**
08:00	Payrolled Employees Monthly Change (Jan)	-20k	-43k
08:00	Claimant Count Rate (Jan)	--	4.40%
08:00	Jobless Claims Change (Jan)	--	17.9k
10:30	Output Per Hour YoY (4Q)	--	1.10%
EMU			
11:00	ZEW Survey Expectations (Feb)	--	40.8
Germany			
11:00	ZEW Survey Expectations (Feb)	65.2	59.6
11:00	ZEW Survey Current Situation (Feb)	-65.9	-72.7
Events			
04:35	Japan to Sell 5-Year Bonds		
11:30	Germany to Sell EU6 Billion of 2.1% 2028 Bonds		
18:45	Fed's Barr Speaks on AI and the Labor Market		
20:30	Fed's Daly Speaks on AI and the Economy		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,05	0,00		US	3,41	0,00	DOW	49500,93	0,00
DE	2,75	0,00		DE	2,04	0,00	NASDAQ	22546,67	0,00
BE	3,28	0,00		BE	2,05	0,01	NIKKEI	56566,49	-239,92
UK	4,40	-0,02		UK	3,59	-0,01	DAX	24800,91	-113,97
JP	2,13	-0,09		JP	1,24	-0,04	DJ euro-50	5978,88	-6,35

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,26	3,23	3,48	€STR	1,9290	-0,0010			
5y	2,42	3,33	3,63	Euribor-1	1,9470	-0,0040	SOFR-1	3,6650	0,0009
10y	2,76	3,64	4,01	Euribor-3	1,9990	0,0000	SOFR-3	3,6526	0,0000
				Euribor-6	2,1550	0,0080	SOFR-6	3,5866	0,0000

Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1851	-0,0017		EUR/JPY	181,88	0,70	CRB	306,54	0,00
USD/JPY	153,47	0,77		EUR/GBP	0,8695	0,0000	Gold	5046,30	0,00
GBP/USD	1,3629	-0,0022		EUR/CHF	0,9120	0,0004	Brent	68,65	0,90
AUD/USD	0,7072	-0,0001		EUR/SEK	10,6012	0,0164			
USD/CAD	1,3636	0,0019		EUR/NOK	11,2653	-0,0147			

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		