Internal

Wednesday, 18 February 2026

KBC Sunrise Market Commentary

Markets

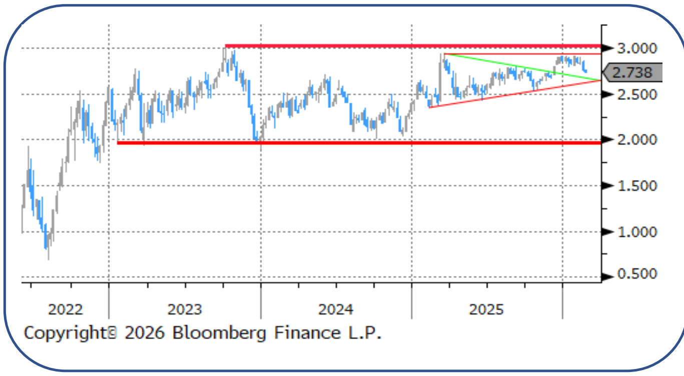
- **Fed governor Barr** isn't the most vocal one on the Board of Governors of the US central bank. When he speaks, it's mostly on the subject of AI and its broader impact on several pockets of the economy/policy. His voting track record shows that he is a close ally of Fed Chair Powell though, loyally aligning with the majority view. Yesterday he went off-track in a speech at the NY Association for Business Economics. Before diving into his main topic (impact of AI on labor market and economy), he shared his current **views on the economy and monetary policy.** He is the first board member to do so in the wake of last week's payrolls and inflation numbers. We believe they **represent the current consensus thinking** on how to balance risks around the Fed's dual target. Barr argues that the labor market is stabilizing after slowing through last summer and the unemployment rate is close to the NAIRU (equilibrium rate for economy in balance). However, the tentative balance in labor supply (low firing rates) and demand (near zero job creation over the course of last year) is a delicate one. **That means that the labor market could especially be vulnerable to negative shocks.** Turning to inflation, Barr points out that PCE remains elevated at 3% for already a year now as the disinflation process which started in mid-2022 slowed because of (tariff-related) **goods price inflation picking up.** It's reasonable to forecast that tariff effects will begin to abate later this year, **but there's still a significant risk of persistent inflation above 2% which is why the Fed needs to remain vigilant.** Barr would like to see **evidence that goods price inflation is sustainably retreating before considering reducing the policy rate further, provided labor market conditions remain stable.** Based on current conditions and the data in hand, it will likely be **appropriate to hold rates steady for some time** as the Fed assesses incoming data, the evolving outlook, and the balance of risks. US money markets are currently in line with this view **attaching a 7% probability to a March rate cut scenario, 25% by April and 75% by June.** Finally some words on Barr's area of expertise: AI. A debate is going on **how the AI (productivity) boom would impact interest rates.** Barr shares the views of for example vice chair Jefferson. All things equal, they expect them to **at least temporary raise the neutral rate.** Higher demand for capital because of strong business investments required to take advantage of the technology should put upward pressure on rates. Falling household savings due to expectations of stronger real wage growth and thus higher lifetime earnings could do the same. This view **contrasts with what incoming Fed chair Warsh** (and Washington officials) believe will be a productivity boom that allows for non-inflationary growth and thus lower rates to accompany them.

News & Views

- **The Reserve Bank of New Zealand (RBNZ) kept the policy rate unchanged at 2.25% this morning.** While expected, the kiwi dollar (NZD/USD back below 0.60) and (swap) rates (-9 bps) are substantially lower for the day. Both had been **speculating on an Australian scenario** for New Zealand in which the central bank in a not too distant future would raise rates. The RBNZ sought to douse that fire by saying that the ***"policy stance would need to remain accommodative for some time to support a sustained recovery in economic activity."*** The central bank is concerned about the **risk of prolonged caution in household spending,** *"particularly in the context of a recent tightening in financial conditions"*. The latter is a reference to kiwi money markets which got ahead of themselves. The decision was made against the backdrop of **balanced inflation risks and a recovering but still uncertain economy in spare capacity.** Inflation rose above the 1-3% target range in 2025Q4 (3.1%) but had been driven by volatile items as well as components outside the scope of monetary policy. Core inflation have remained stable, albeit mostly above the target midpoint. Rates of wage inflation remain consistent with inflation trending back towards 2%. Markets are currently **pricing a first hike by December** compared to September earlier this month.

- **Japanese trade data blew well beyond expectations in January.** With imports unexpectedly dropping 2.5% y/y and exports surging 16.8%, the **trade balance printed a strong JPY 455.5bn, the most in five years.** Shipments of semiconductors and other electronic components in particular rose, by almost 40%. **Chinese exports seared a whopping 22.4% but have been distorted by the timing of the Lunar New Year holidays,** which fell in January last year. That said, **EU exports also jumped by almost 19% while those inbound for the US rose by just 2%.** By contrast, imported volumes coming from the US rose 6.2% while dropping both in China (-2.3%) and slightly in the EU (-0.5%). The Japanese yen reacted stoic by trading virtually unchanged around USD/JPY 153.5. That remains weak from a historical perspective and has helped Japan's trade balance recover from the 2024-2025 troughs.

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

Wednesday, 18 February		Consensus	Previous
US			
14:30	**Durable Goods Orders (Dec P)**	**-2.000%**	**5.30%**
14:30	Durables Ex Transportation (Dec P)	0.30%	0.40%
14:30	Cap Goods Orders Nondef Ex Air (Dec P)	0.30%	0.40%
14:30	**Cap Goods Ship Nondef Ex Air (Dec P)**	**0.30%**	**0.20%**
14:30	Housing Starts Total/MoM (Dec)	1304k/1.10%	--/--
14:30	Building Permits Total/MoM (Dec P)	1400k/0.40%	--/--
14:30	New York Fed Services Business Activity (Feb)	-14.2	-16.1
15:15	Industrial Production MoM (Jan)	0.40%	0.40%
15:15	Capacity Utilization (Jan)	76.50%	76.30%
20:00	**FOMC Meeting Minutes**		
22:00	Net Long-term TIC Flows (Dec)	--	$220.2b
Japan			
00:50	Imports/Exports YoY (Jan)	2.50%A/16.80%A	5.20%R/5.10%
00:50	Trade Balance Adjusted (Jan)	¥455.5bA	-¥62.6bR
UK			
08:00	**CPI MoM/YoY (Jan)**	**-0.50%/3.00%**	**0.40%/3.40%**
08:00	CPI Core YoY (Jan)	3.00%	3.20%
08:00	CPI Services YoY (Jan)	4.30%	4.50%
08:00	CPIH YoY (Jan)	3.20%	3.60%
08:00	RPI MoM/YoY (Jan)	-0.40%/3.80%	0.70%/4.20%
08:00	PPI Output NSA MoM/YoY (Jan)	0.20%/2.90%	0.00%/3.40%
08:00	PPI Input NSA MoM/YoY (Jan)	0.40%/0.30%	-0.20%/0.80%
10:30	House Price Index YoY (Dec)	--	2.50%
New Zealand			
02:00	**RBNZ Official Cash Rate**	**2.25%A**	**2.25%**
Events			
03:00	RBNZ Governor News Conference		
04:35	Japan to Sell 20-Year Bonds		
09:30	ECB's Villeroy Speaks in Paris		
10:30	Spain to Sell Bonds		
11:30	Germany to Sell EU5.5 Billion of 2.9% 2036 Bonds		
18:00	ECB's Schnabel Speaks in Berlin on State Debt Loads		
19:00	U.S. To Sell USD16 Bln 20-Year Bonds		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,06	0,01		US	3,43	0,02	DOW	49533,19	32,26
DE	2,74	-0,02		DE	2,04	0,00	NASDAQ	22578,38	31,71
BE	3,25	-0,02		BE	2,05	0,00	NIKKEI	57143,84	577,35
UK	4,38	-0,02		UK	3,59	0,00	DAX	24998,4	197,49
JP	2,14	0,01		JP	1,24	0,00	DJ euro-50	6021,85	42,97
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,26	3,25	3,47	€STR	1,9310	0,0020			
5y	2,42	3,34	3,62	Euribor-1	1,9320	-0,0150	SOFR-1	3,6709	0,0059
10y	2,75	3,65	3,98	Euribor-3	2,0110	0,0120	SOFR-3	3,6597	0,0071
				Euribor-6	2,1590	0,0040	SOFR-6	3,6025	0,0159
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1855	0,0004		EUR/JPY	181,72	-0,16	CRB	302,14	-4,40
USD/JPY	153,31	-0,16		EUR/GBP	0,8737	0,0042	Gold	4905,90	-140,40
GBP/USD	1,3568	-0,0061		EUR/CHF	0,9129	0,0008	Brent	67,42	-1,23
AUD/USD	0,7086	0,0014		EUR/SEK	10,631	0,0298			
USD/CAD	1,3636	0,0000		EUR/NOK	11,2999	0,0346			

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