

Friday, 20 February 2026

KBC Sunrise Market Commentary

Markets

- Geopolitics remain the dominant trading theme** as US President Trump weighs his options in the Middle East. After amassing the largest amount of US troops in the region since the 2003 Iraq invasion, he might effectively deploy them in order to get a nuclear deal with Iran. He has given a 10-day ultimatum to Tehran or **“really bad things” will happen**. Last year, Trump launched an attack against three Iranian facilities three days after a similar deadline. Operation Midnight Hammer happened on a Sunday... The WSJ yesterday reported on a **“limited-strike option”** as a reprimand for Iran’s failure to make a deal, but also pave the way for a US-friendly accord. People close to the matter suggest that Trump could ratchet up his attacks, starting small before ordering larger strikes until the Iranian regime either dismantles its nuclear work or falls. **Brent crude prices work their way through \$72/b this morning**, the highest level since last summer and to be compared with \$67.75/b closing price at the end of last week. Middle East stress translated in a **risk-off setting** yesterday with European and US stock markets respectively losing around 1% and 0.5%. **The US dollar took up his safe haven role** with the trade-weighted greenback (DXY) testing first resistance at 97.99. The attempt is ongoing this morning. EUR/USD is in the same vein losing first support at 1.1766 with GBP/USD already well below 1.3509. Strong January UK retail sales (+1.8% M/M & +4.5% Y/Y) this morning offer some relief for GBP. The dollar is able to play this role after **throwing off the shackles of a possible March Fed rate cut**. Last week’s payrolls and CPI report dismissed the case with this week’s Fed comments and FOMC Minutes also favouring a longer “hold”. Even **Fed governor Miran** – temporarily appointed by President Trump end last year and echoing the administration’s dovish views – said in an interview with The Peg yesterday that he’s going to undo what he did his December projections. In the quarterly dot plot, he had the policy rate falling to 2%-2.25% by the end of the year. Latest labor market data came in a little bit better than he expected while he also saw some signs of even more firming in goods inflation. Therefore, he’s inclined to go back to his September projection (2.5%-2.75%) which would still only put him on par with the second most dovish voice inside the FOMC. Today’s eco calendar contains global PMI and US Q1 GDP. Our KBC nowcast now predicts 2.74% Q/Qa growth for Q4 (vs +3% consensus); however, if we filter out the gold effects, only 1.6% Q/Qa would remain. **We don’t think the numbers will be able to offset caution going into the weekend with US action against Iran looming.**

News & Views

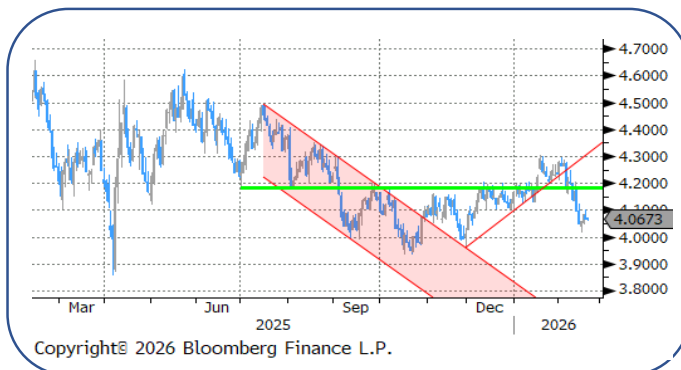
- Belgium’s Court of Audit** has **serious doubts** whether the federal budget will **comply with the EU’s expenditure growth cap**. The government led by PM De Wever aims to do so through 2029 and end last year agreed on some €8bn in additional efforts to remain on track. **The Court of Audit is skeptical on the €1.9bn in savings that the government is counting on** through **activating people** that have been out of a job due to long-term sickness. **Anti-fraud measures are expected to yield €1.2bn but the Court noted that there’s still no plan in place**. It also raised questions on the hundreds of millions that **VAT changes would deliver for the 2026 budget**, because some measures need a complete overhaul (eg. takeaway) while others (most) are only introduced no sooner than Q2 or later still. The Court of Audit is **similarly less optimistic** than the government on the revenues coming from, amongst others, **changes to wage indexation, the increased reduced withholding tax and the capital gains tax**. The news from the Court of Audit comes after the jab from the **Federal Planning Bureau last week**. The FPB in updated forecasts assumes **the deficit to be €3bn larger in 2029 compared to government estimates** due to changes in personal income taxes. In GDP terms, **the deficit would rise from 4.9% this year to 5.7% in 2029** (vs 5.3% in government forecasts). Deficits would continue to rise in the years thereafter, with a **6.3% shortage in 2031**. Government debt would spiral from 109.4% this year **to 116.6% in 2029 and 122.2% in 2031**.
- Japanese inflation came in slightly below expectations in January**. Headline CPI eased from 2.1% to 1.5% while core inflation (ex. fresh food and energy) decelerated from 2.9% to 2.6%. **The Bank of Japan’s preferred inflation gauge (ex. fresh food) matched the 2% bar** (from 2.4% in December). Government measures to reduce cost of living are paying off, including in reduced fuel costs through tax measures that pushed overall energy prices down 5.2% y/y. Fresh food (-6.9%) weighed on prices as well with the annual reading correcting from last year’s (p)rice surge. It is expected that **inflation would drop below 2% in core gauges in coming months** as government utility measures kick in. The Bank of Japan had been expecting the slowing price growth and stressed they remain focused on the underlying trend. As such, the outcome today **shouldn’t bring the BoJ off-track** with rate hikes still due in coming months. USD/JPY rises slightly to north of 155. Front-end Japanese yields trade little changed.

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.



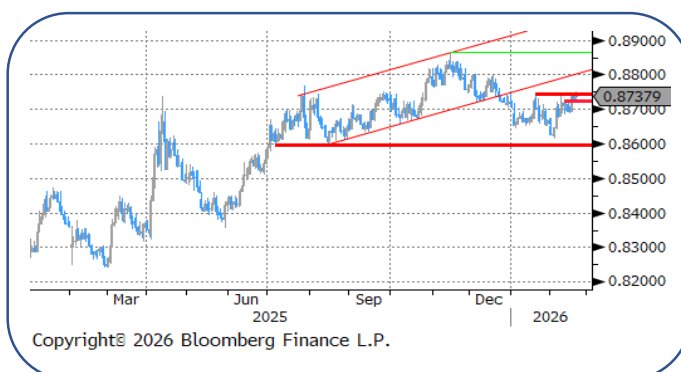
US 10y yield

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

Friday, 20 February		Consensus	Previous
US			
14:30	Personal Income/Spending (Dec)	0.30%/0.30%	0.30%/0.50%
14:30	Real Personal Spending (Dec)	0.10%	0.30%
14:30	PCE Price Index MoM/YoY (Dec)	0.30%/2.80%	0.20%/2.80%
14:30	Core PCE Price Index MoM/YoY (Dec)	0.30%/2.90%	0.20%/2.80%
14:30	GDP Annualized QoQ (4Q A)	2.80%	4.40%
14:30	Personal Consumption (4Q A)	2.40%	3.50%
14:30	GDP Price Index (4Q A)	2.80%	3.80%
14:30	Core PCE Price Index QoQ (4Q A)	2.60%	2.90%
15:45	S&P Global US Manufacturing PMI (Feb P)	52.4	52.4
15:45	S&P Global US Services PMI (Feb P)	53.0	52.7
15:45	S&P Global US Composite PMI (Feb P)	53.1	53
16:00	New Home Sales MoM/Total (Dec)	0.00%/730k	--/--
16:00	U. of Mich. Sentiment (Feb F)	57.3	57.3
Japan			
00:30	Natl CPI YoY (Jan)	1.50%A	2.10%
00:30	Natl CPI Ex Fresh Food YoY (Jan)	2.00%A	2.40%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Jan)	2.60%A	2.90%
01:30	S&P Global Japan PMI Composite (Feb P)	53.8A	53.1
01:30	S&P Global Japan PMI Mfg (Feb P)	52.8A	51.5
01:30	S&P Global Japan PMI Services (Feb P)	53.8A	53.7
UK			
08:00	Public Sector Net Borrowing (Jan)	-24.0b	11.6b
08:00	PSNB ex Banking Groups (Jan)	--	11.6b
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Jan)	0.20%/2.80%	0.40%/2.50%
08:00	Retail Sales Ex Auto Fuel MoM/YoY (Jan)	0.30%/3.60%	0.30%/3.10%
10:30	S&P Global UK Services PMI (Feb P)	53.5	54
10:30	S&P Global UK Manufacturing PMI (Feb P)	51.5	51.8
10:30	S&P Global UK Composite PMI (Feb P)	53.2	53.7
EMU			
10:00	HCOB Eurozone Manufacturing PMI (Feb P)	50.0	49.5
10:00	HCOB Eurozone Services PMI (Feb P)	51.9	51.6
10:00	HCOB Eurozone Composite PMI (Feb P)	51.5	51.3
11:00	Negotiated Wages (4Q)	2..90%	1.87%
Germany			
08:00	PPI MoM/YoY (Jan)	0.30%/-2.20%	-0.20%/-2.50%
09:30	HCOB Germany Services PMI (Feb P)	52.4	52.4
09:30	HCOB Germany Composite PMI (Feb P)	52.3	52.1
09:30	HCOB Germany Manufacturing PMI (Feb P)	49.5	49.1
France			
09:15	HCOB France Manufacturing PMI (Feb P)	50.9	51.2
09:15	HCOB France Services PMI (Feb P)	49.2	48.4
09:15	HCOB France Composite PMI (Feb P)	49.6	49.1
Events			
15:45	Fed's Bostic in Moderated Conversation		
19:15	Fed's Logan Speaks at Bank Regulation Conference		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,07	-0,02		US	3,46	0,00	DOW	49395,16	-267,50
DE	2,74	0,00		DE	2,05	0,00	NASDAQ	22682,73	-70,90
BE	3,25	0,00		BE	2,06	0,00	NIKKEI	56825,7	-642,13
UK	4,37	-0,01		UK	3,57	-0,01	DAX	25043,57	-234,64
JP	2,11	-0,04		JP	1,26	-0,01	DJ euro-50	6059,62	-43,75
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	2,27	3,27	3,45	€STR	1,9330	0,0020			
5y	2,43	3,36	3,60	Euribor-1	1,9300	0,0090	SOFR-1	3,6722	-0,0046
10y	2,76	3,66	3,97	Euribor-3	2,0240	0,0180	SOFR-3	3,6645	-0,0029
				Euribor-6	2,1370	-0,0040	SOFR-6	3,6110	-0,0002
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1773	-0,0010		EUR/JPY	182,51	0,10	CRB	309,10	1,17
USD/JPY	155,01	0,20		EUR/GBP	0,8743	0,0011	Gold	4997,40	-12,10
GBP/USD	1,3465	-0,0030		EUR/CHF	0,9126	0,0016	Brent	71,66	1,31
AUD/USD	0,7056	0,0014		EUR/SEK	10,676	0,0244			
USD/CAD	1,368	-0,0016		EUR/NOK	11,2562	0,0185			

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