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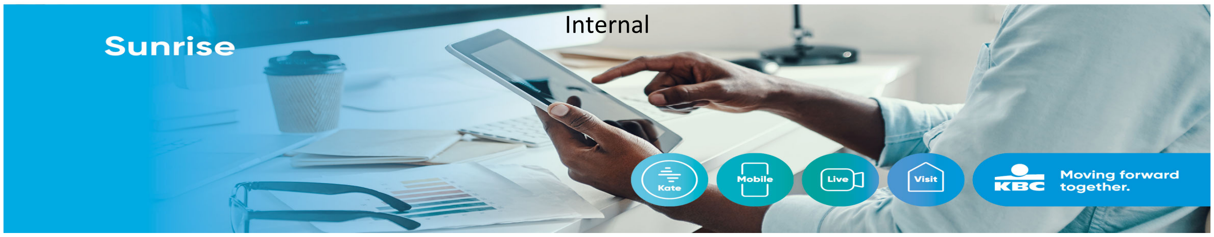

Wednesday, 25 February 2026

KBC Sunrise Market Commentary

Markets

- **AI and tariff related uncertainty moved a bit to the back ground yesterday as drivers for daily trading/sentiment.** (US) equities recovered (Nasdaq +1.04%) as investors pondered how to position in the wake of the recent debate on the potential disruptive effects of AI on (separate) economic sectors. For now its **far less easy to draw any firm conclusions of the AI-debate for central bank policy and rates' markets**. Fed governor **Lisa Cook** yesterday elaborated on the topic, but her main message is that it might take plenty of time for the Fed to have a clear view on how AI will affect its policy and what it means for the neutral rate. A bit remarkable, Lisa Cook indicated that it might not be appropriate/evident for the Fed to counter an AI-driven rise in unemployment with a stimulative demand-side policy. Whatever, for now, most Fed members (Goolsbee, Collins, Barkin,…) **are holding to the line that more confirmation on goods disinflation is needed for the Fed to cut rates further.** US yields held relatively tight ranges, changing between +2.3 bps (2-y) and -2 bps (30-y). **US consumer confidence** (Conference Board) was better than expected both on the assessment for current conditions and expectations, but had hardly any impact on trading. **German yields changed less than 1 bp across the curve.** The dollar gained marginally, but also mostly held tight ranges (DXY close 97,84; EUR/USD close 1.17). The yen underperformed on headlines that PM Takaichi in a meeting with the BOJ governor Ueda showed concerns on a more restrictive BOJ policy. In a **hearing before the UK Parliament's Treasury Select Committee,** BoE governor Bailey confirmed that he expects inflation to drop to 2% in Spring, but didn't formally engage on March rate cut yet *("It's a genuinely open question"),* amongst others as services inflation didn't decline as much as hoped. The BoE governor also elaborated on higher productivity causing some dishoarding of labour in the economy. BoE economist Phil indicated still warned on upside underlying inflation risks. Even so, UK gilts' performance didn't profoundly deviated from Bunds. UK Money markets still see about 75% chance of a March 25 bps rate cut. Sterling gained marginally on the day (EUR/GBP close 0.873).

- Overnight, in his **State of the Union** address, **US president Trump** basically defended his policy, including his cost of living approach, **but didn't flag much new policy initiatives.** Asian (equity) markets mostly start the day in risk-on modus, joining yesterday's rebound in the US. US yields gain a few bps. **The dollar eases modestly.** The yen again underperforms (see below). The yuan extends its uptrend (USD/CNY 6.868). **The eco calendar in the US and EMU is again very thin.** After the close of US markets Nvidia will publish results. Markets also will continue to keep an eye on the results of software companies as the debate on the impact of AI on other sectors develops.

News & Views

- **Australian inflation slowed from 1% M/M to +0.4% M/M in January, but this helped stabilizing the annual number at 3.8% Y/Y.** Consensus was looking for a slight moderation to 3.7%. The largest contributor to annual inflation was **housing** (6.8% Y/Y from 5.5% in December). Electricity prices (+32.2% Y/Y from 21.5% Y/Y) remain influenced by government rebate programmes. Food inflation remains high at 3.9% Y/Y. A key measure of underlying inflation (for the Reserve Bank of Australia), **the trimmed mean, accelerated from 0.2% M/M to 0.3% M/M and from 3.3% Y/Y to 3.4% Y/Y.** Today's inflation numbers bolster bets that the central bank could already follow up on its inaugural 25 bps rate hike (earlier this month) by the time of the May policy meeting (92%). The market implied probability of back-to-back action in March is slim (16%). AUD/USD profits this morning, moving back above 0.71 and targeting the YtD high at 0.7147.

- **Japanese PM Takaichi nominated two candidates to fill seats opening up on the Bank of Japan's policy board.** Both Toichiro Asada and Ayano Sato are **considered to share the PM's reflationist views.** Yesterday the Japanese yen already lost ground after the PM in a meeting with BoJ governor Ueda voiced opposition against more rate hikes. The two nominees, if approved by both houses of Japanese parliament, are expected to tilt the balance on the BoJ board to the dovish side. The Japanese yield curve bear steepens this morning with the long end rising by up to 7.6 bps higher (driven by inflation expectations). USD/JPY initially spiked from 155.50 to 156, but the move petered out.

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 mixed/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, 25 February		Consensus	Previous
Japan			
00:50	PPI Services YoY (Jan)	--	2.60%
EMU			
11:00	CPI MoM/YoY (Jan F)	-0.50%/1.70%	-0.50%/1.70%
11:00	CPI Core YoY (Jan F)	2.20%	2.20%
Germany			
08:00	GfK Consumer Confidence (Mar)	-23	-24.1
France			
08:45	Consumer Confidence (Feb)	90	90
Norway			
08:00	Unemployment Rate Trend (Jan)	--	4.50%
Spain			
09:00	PPI MoM/YoY (Jan)	--/--	0.40%/-3.00%
Sweden			
08:00	PPI MoM (Jan)	--/--	-1.10%/-2.70%
Events			
Q4 earnings	Nvidia (22:20), IonQ (aft-mkt) …		
09:40	RBA's Bullock-Fireside Chat		
11:00	ECB's Vujcic Speaks in EU Parliament		
11:30	Germany to Sell Bonds		
16:40	Fed's Barkin Speaks on Panel		
17:00	Fed's Schmid Speaks on Monetary Policy and the Economy		
19:20	Fed's Musalem Speaks on Role of Fed		
19:00	U.S. To Sell USD70 Bln 5-Year Notes		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,03	0,00		US	3,46	0,02	DOW	49174,5	370,44
DE	2,71	0,00		DE	2,05	0,01	NASDAQ	22863,68	236,41
BE	3,21	-0,01		BE	2,14	0,08	NIKKEI	58583,12	1262,03
UK	4,31	-0,01		UK	3,58	0,02	DAX	24986,25	-5,72
JP	2,14	0,05		JP	1,23	0,00	DJ euro-50	6116,6	2,68
IRS	**EUR**	**USD**	**GBP**	**EUR**	**-1d**	**-2d**	**USD**	**-1d**	**-2d**
3y	2,26	3,24	3,44	€STR	1,9320	0,0010			
5y	2,40	3,30	3,58	Euribor-1	1,9420	-0,0180	SOFR-1	3,6711	-0,0051
10y	2,73	3,60	3,94	Euribor-3	2,0410	0,0070	SOFR-3	3,6706	-0,0015
				Euribor-6	2,1490	0,0040	SOFR-6	3,6250	0,0036
Currencies	**Close**	**-1d**		**Currencies**	**Close**	**-1d**	**Commodities**	**Close**	**-1d**
EUR/USD	1,1772	-0,0013		EUR/JPY	183,54	1,26	CRB	309,80	-0,34
USD/JPY	155,87	1,22		EUR/GBP	0,8727	-0,0008	Gold	5176,30	-49,30
GBP/USD	1,3489	-0,0003		EUR/CHF	0,9112	-0,0018	Brent	70,77	-0,72
AUD/USD	0,7058	0,0002		EUR/SEK	10,6618	-0,0159			
USD/CAD	1,37	0,0003		EUR/NOK	11,2644	-0,0098			

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