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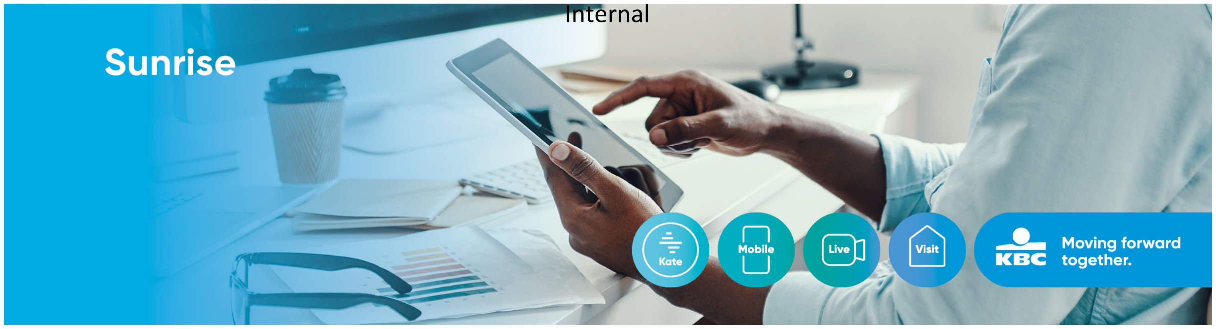

Thursday, 20 August 2026

KBC Sunrise Market Commentary

Markets

- The (very) long end of the US yield curve rallied yesterday with the curve bull flattening. Daily changes ranged from -0.8 bps (2-yr) to -9.2 bps (30-yr). The US Treasury's unexpected decision to increase by **at least double (from $2bn per operation), the size of liquidity support buyback operations for longer-dated nominal coupon securities** (10y to 20y and 20y to 30y) triggered the rally. This will apply to 7 more buybacks operations from September 9 through November 4 after which the Treasury will announce more on future sizes at the next Quarterly Refunding statement. The Treasury purchases off-the-run nominal coupon securities and TIPS from primary dealers, financed by simultaneously issuing new on-the-run securities. **The goal is to retire illiquid older debt and replace it with more actively traded benchmarks, improving overall market depth.** While the higher volumes are clearly no game-changer, they signal that **"big brother" (Treasury Secretary Bessent) is watching the long end of the curve.** The end-of-July joint efforts with Japanese authorities to stem JPY-weakness were also partially inspired by this. Bessent wanted to **avoid the situation where Japan accelerated selling of US Treasury holdings to fund FX interventions.** The US 30-yr yield moved above 5.3% for the first time since 2007 earlier this week, driven by real yields rather than inflation expectations. The US administration is focused on interest rates as election pledges to lower mortgage rates risk backfiring at upcoming US-midterm elections. Apart from the political aspect, **elevated interest rates significantly weigh on the US budget deficit.** Focus now turns to next week's Jackson Hole meeting with **some expecting Kevin Warsh to team up with Scott Bessent** by putting a hawkish message in the market. A credible tightening signal could help put a lid on the inflation risk premium embedded in long term bond yields. Yesterday's **FOMC Minutes** failed to trigger an intraday turnaround but highlighted broader support for a rate hike than the three official dissenters. "Several" participants favored raising rates with **"many" assessing that tightening would be needed if inflation didn't decline.** They highlighted that *"after several years of inflation above 2%, continued elevated inflation rates could begin to affect inflation expectations and wage- and price-setting decisions".*
- The Treasury announcement had **consequences beyond FI markets.** The **dollar lost appeal** with EUR/USD clearing the 1.16 technical resistance area to close at 1.1677 (highest since end May). The pair is now again in the middle of the dominant trading range in place since last summer (roughly 1.14-1.20). US stock markets managed a slight positive close while **gold rallied to its best level since early June** on the drop in US real yields. The next couple of days will show whether Bessent's deterrence strategy works or not. **On surface, it doesn't seem sufficient enough to stem recent worries.**

News & Views

- **Australian employment unexpectedly fell by 15.8k last month,** coming on the back however of a stellar June (upwardly revised to 80.2k). A 32.2k employment loss in the part-time sector was only partially compensated by a rise in full-timers (+16.3k). **The employment-to-population ratio and the participation rate both fell 0.2 pps, to 63.9% and 66.9%** respectively, the Australian Bureau of Statistics reported. **The unemployment rate unexpectedly rose to 4.5% from 4.4%.** The overall slightly weaker-than-expected labour market report comes after some hawkish signals from key central bank policymakers, including governor Bullock and assistant-governor Hauser. That contradiction is now causing some kneejerk bull steepening in the Australian yield curve with changes currently varying between -2 (30-yr) and -5.1 (3-yr) bps. The Aussie dollar barely changes. AUD/USD holds virtually steady near a two-month high around 0.711.
- **Hungary's Paks nuclear plant is able to avert a full shutdown thanks to water levels on the Danube river expected to remain high enough.** The water serves as the plant's main coolant, and recent low levels had already caused it to work at just 25% of capacity. In normal times, the power plant generates nearly half of Hungary's electricity. PM Magyar hailed the recent engineering work that has already managed to raise the water level by 10-15 centimeters. It began constructing a riverbed sill last week that should raise levels by up to 1meter but its completion is still some time away. A short-term solution consisted of sinking two barges near Paks.

Graphs

GE 10y yield

The ECB hiked rates in June by 25 bps. It responded to rising risks of indirect and second round effects caused by higher oil prices. Markets are betting on follow-up hikes later this year after **the US-Iran interim deal was bombed into smithereens.** Real rates rise along with inflation expectations and bring the 2026 multi-year high in focus. **Higher risk premia** (in particular public finances) add a structural layer to higher yields.

US 10y yield

Fed Chair Warsh started on a hawkish note in June: “The Committee will deliver price stability”. Market gave the Fed Chair a vote of confidence, but the communication crackdown is causing volatility at the front end of the curve. Real rates are driving the increase at the (very) long end of the curve as fiscal worries seem to make a return. We have **the rare set-up of real yields exceeding inflation expectations.**

EUR/USD

EUR/USD 1.1392 support was cracking before sub-par June payrolls threw the pair a short-term life jacket. **A loss of market confidence after the July Fed press conference** takes some further shine of the US dollar. The move beyond 1.16 makes the technical picture neutral again.

EUR/GBP

EUR/GBP broke a GBP bullish triangle to the downside; with EUR/GBP falling below the key 0.86 support area. **Markets initially gave new PM Burnham the benefit of the doubt, but sterling momentum dwindled recently.** The 2026 November budget will be Burnham’s litmus test. EUR/GBP found support around 0.845 with first resistance around 0.86.

Calendar & Table

Thursday, 20 August		Consensus	Previous
US			
14:30	**Philadelphia Fed Business Outlook (Aug)**	**24.8**	**41.4**
14:30	**Initial Jobless Claims**	**210k**	**209k**
14:30	Initial Claims 4-Wk Moving Avg	--	199k
14:30	Continuing Claims	1788k	1777k
Japan			
1:50	Imports YoY (Jul)	27.80%A	25.40%
1:50	Exports YoY (Jul)	23.20%A	19.30%
1:50	Trade Balance Adjusted (Jul)	-¥686.0bR	-¥927.1bR
UK			
12:00	CBI Trends Total Orders (Aug)	-40	-45
12:00	CBI Trends Selling Prices (Aug)	14	11
EMU			
11:00	Construction Output MoM / YoY (Jun)	--/--	0.40%/1.20%
Germany			
8:00	PPI MoM / YoY (Jul)	0.60%/2.50%	-0.30%/1.80%
China			
3:00	1-Year Loan Prime Rate	3.00%A	3.00%
3:00	5-Year Loan Prime Rate	3.50%A	3.50%
Sweden			
9:30	**Riksbank Policy Rate**	**1.75%**	**1.75%**
Events			
10:50	France to Sell 2.4% 2029. 2.7% 2031. 3.25% 2032 & 3% 2034 Bonds		
14:30	Fed's Daly Appears on Bloomberg TV		
17:10	Fed's Musalem on CNBC		
21:30	ECB's Sleijpen Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,65	-0,06		**US**	4,16	-0,01	**DOW**	53463,05	119,65
DE	3,26	0,00		**DE**	2,87	0,01	**NASDAQ**	26331,09	41,38
BE	3,82	0,00		**BE**	2,90	0,01	**NIKKEI**	66173,32	846,90
UK	5,04	-0,04		**UK**	4,36	-0,02	**DAX**	26091,33	-37,03
JP	2,85	-0,06		**JP**	1,67	-0,01	**DJ euro-50**	6444,46	-23,71

IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,09	4,04	4,33	**€STR**	2,1880	0,0000			
5y	3,13	4,07	4,39	**Euribor-1**	2,1960	-0,0050	**SOFR-1**	3,6518	-0,0019
10y	3,29	4,25	4,65	**Euribor-3**	2,4920	-0,0080	**SOFR-3**	3,7308	-0,0040
				Euribor-6	2,7190	0,0220	**SOFR-6**	3,8274	-0,0115

Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1677	0,0101	**EUR/JPY**	184,7	-0,06	**CRB**	400,18	3,40
USD/JPY	158,17	-1,44	**EUR/GBP**	0,8582	0,0027	**Gold**	4545,30	124,70
GBP/USD	1,3606	0,0074	**EUR/CHF**	0,9312	-0,0092	**Brent**	91,62	0,60
AUD/USD	0,7125	0,0037	**EUR/SEK**	11,0211	-0,0145			
USD/CAD	1,3809	-0,0089	**EUR/NOK**	10,8944	-0,0034			

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 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
Petr Baca	+420 2 6135 3570		
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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