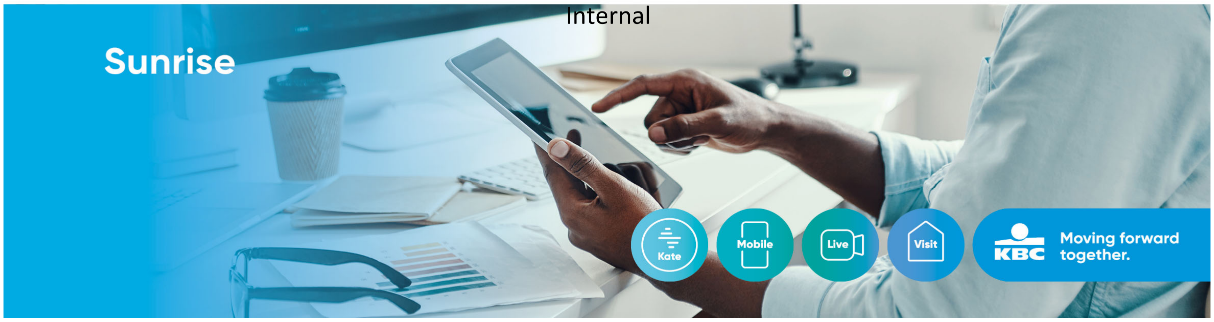

Friday, 18 September 2026

KBC Sunrise Market Commentary

Markets

- USD/JPY surges to 157.1 this morning. **The pair has now recouped about half of the impressive JPY gains earlier this month.** The Bank of Japan as expected lifted the policy rate by 25 bps to 1.25%, the highest since 1997. The decision was **a 7-2 split vote and that came as a dovish surprise.** After weeks of hawkish speculation, fueled amongst others by US Treasury Secretary Bessent and BoJ policymaker Takata, **the two dissenters are suddenly casting doubt** on the (speed and size of the) central bank's future tightening plans. The fact that August CPI (1.7-1.9% depending on the gauge) just missed the bar doesn't help of course, even though underlying momentum remains on track for the BoJ's 2% target. The BoJ views the current rate as accommodative still which firmly supports economic activity. It will **"continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions."** Money markets price in a 80%+ chance for another move by December. Japanese yields drop a few bps at the front end of the curve. Long end yields, though flat on the day, showed an interest intraday turnround (inflation risk premia?).
- **UK gilts outperformed peers yesterday** in the wake of the Bank of England's policy decision. Long-term bond yields stumbled up to 12 bps (30-yr). The BoE will continue to sell government bonds as it further winds down a legacy portfolio through **the 2034 planned end-date. It would, however, spare the long(est) maturities in doing so.** The annual pace, on average £22bn passively + £20bn actively, was slower than expected and a deceleration from the current £70bn. **The BoE is also considering to sell the bonds to the government's DMO instead of the market.** That offers the DMO the possibility of replacing them by gilts with maturities that better meets market demand. In any case, sales are paused until April 2027 while policymakers are hashing out the final details of plan. The rate was kept unchanged at 3.75% **in the same 6-3 split decision of July.** Front-end yields eased up to 2.3 bps. Losses were bigger at first, probably reflecting some disappointment that no one of the majority had flipped to the hawkish camp. Some appear close to do so, however, including governor Bailey. Risk to the upside have increased, owing to the recent sharp increase in energy prices. UK money markets attach a 83% probability to a November rate hike, the first of about four in total (by mid-2027). EUR/GBP tested the 0.86 big figure on sterling weakness but failed to close above.
- Treasuries rallied too. The dust from Wednesday's FOMC settled and it looks like chair **Warsh with his hawkish hike managed to convince markets** of the central bank's price stability commitment. Easing energy prices - despite them recovering from the intraday lows – helped support the move. US yields dropped 7.3-10.1 bps and the 10-yr is backing off the 5% psychological barrier for now. German yields joined the way down, be it less outspoken. The US dollar gave back some of the post-Fed gains in a risk-on session. EUR/USD finished at 1.1476. For the euro and euro yields the ECB's consumer inflation survey and a speech by ECB's Lagarde could be the driving element today.

News & Views

- **The Czech National Bank Board in a unanimous decision kept interest rates unchanged at 3.75% yesterday.** The CNB noted inflation has been around the 2% target since 2024 and will temporarily increase in late 2026/early 2027. Core inflation remains elevated, above all due to services, including housing prices. But the central bank considered **the June hike has so far led to a sufficient tightening** of monetary conditions. Rising long-term rates worked in the same direction. Risks to inflation remain tilted to the upside, however, on strong domestic demand, a tight labour market, a possible acceleration in household lending and supportive fiscal policy. The Czech koruna closed unchanged yesterday around EUR/CZK 24.32. Swap yields extended an earlier, energy-driven decline. Net changes varied between -3.7 and -5.3 bps in a bull flattening move.
- **The US is said to hold off announcing new import levies on China until after the presidential meeting scheduled next week.** The Trump administration launched an investigation into several major trading partners back in March over excess capacity concerns. Bloomberg reported earlier that this resulted in a 7.5% tariff on Chinese products. The reason for the delay is unclear but could be seen as president Trump holding some leverage going into next week's talks with Xi Jinping.

Graphs

GE 10y yield

The ECB hiked rates in June and again in September by 25 bps. It responded to rising risks of indirect and second round effects caused by higher oil prices. **Surging energy prices turn October into a live meeting** and money markets are pricing towards a 3.5% depo rate. Real rates rise along with inflation expectations and pushed the German 10-yr yield to a multi-year high. **Higher risk premia** (in particular public finances) add a structural layer to higher yields.

US 10y yield

Fed Chair Warsh restored credibility at the September policy meeting. A hike to 3.75%-4% was flanked by hawkish rhetoric and updated forecasts that suggest more is to come. Front-end yields rose to new highs while the long end outperformed on easing inflation risk premia. **Real rates will remain a key driver** for structurally higher rates going forward, though. Fiscal concerns are here to stay.

EUR/USD

Warsh's Jackson Hole speech pulled the dollar from the recent lows. **Following through on the Fed's inflation commitment announced back then** with a September rate hike allowed the greenback to extend that new-found momentum. EUR/USD lost the 1.15 barrier. Technicals favour a return towards the 1.14 barrier.

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 while the BoE prepares for a first rate hike. EUR/GBP found support around 0.845 with first resistance around 0.86 now under test again.

Calendar & Table

Friday, 18 September		Consensus	Previous
US			
15:15	Industrial Production MoM (Aug)	0.30%	0.20%
15:15	Manufacturing Production MoM (Aug)	0.30%	0.20%
Japan			
1:30	Natl CPI YoY (Aug)	1.90%A	1.90%
1:30	Natl CPI Ex Fresh Food YoY (Aug)	1.70%A	1.80%
1:30	Natl CPI Ex Fresh Food. Energy YoY (Aug)	1.90%A	1.90%
1:30	BOJ Target Rate	1.25%A	1.00%
UK			
8:00	Retail Sales Inc Auto Fuel MoM / YoY (Aug)	-0.20%/1.90%	-0.50%/1.60%
8:00	Retail Sales Ex Auto Fuel MoM / YoY (Aug)	-0.20%/1.90%	-0.90%/2.30%
EMU			
10:00	ECB Current Account SA (Jul)	--	35.1b
10:00	ECB 1 Year CPI Expectations (Aug)	3.10%	2.90%
10:00	ECB 3 Year CPI Expectations (Aug)	2.80%	2.70%
Germany			
8:00	PPI MoM / YoY (Aug)	0.40%/3.80%	1.10%/3.00%
12:30	ECB's Lagarde Speaks in Dublin		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,93	-0,09		US	4,66	-0,07	DOW	51778,04	316,14
DE	3,48	-0,03		DE	3,23	0,01	NASDAQ	26418,3	439,87
BE	4,10	-0,03		BE	3,25	0,01	NIKKEI	65045,77	909,52
UK	5,22	-0,07		UK	4,74	-0,02	DAX	25716,71	178,96
JP	2,99	-0,01		JP	1,85	-0,02	DJ euro-50	6322,9	56,40
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,48	4,55	4,64	€STR	2,4400	-0,0010			
5y	3,48	4,51	4,66	Euribor-1	2,4750	0,0250	SOFR-1	3,8976	0,0003
10y	3,52	4,55	4,80	Euribor-3	2,6330	-0,0280	SOFR-3	4,0194	0,0139
				Euribor-6	2,9620	-0,0110	SOFR-6	4,1862	0,0087
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1476	0,0011		EUR/JPY	179,01	-0,14	CRB	425,46	-0,68
USD/JPY	155,97	-0,29		EUR/GBP	0,8590	0,0022	Gold	4399,70	12,20
GBP/USD	1,3359	-0,0022		EUR/CHF	0,9463	-0,0004	Brent	104,82	-1,01
AUD/USD	0,7111	0,0023		EUR/SEK	11,2719	-0,0382			
USD/CAD	1,3991	0,0003		EUR/NOK	10,8137	0,0029			

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