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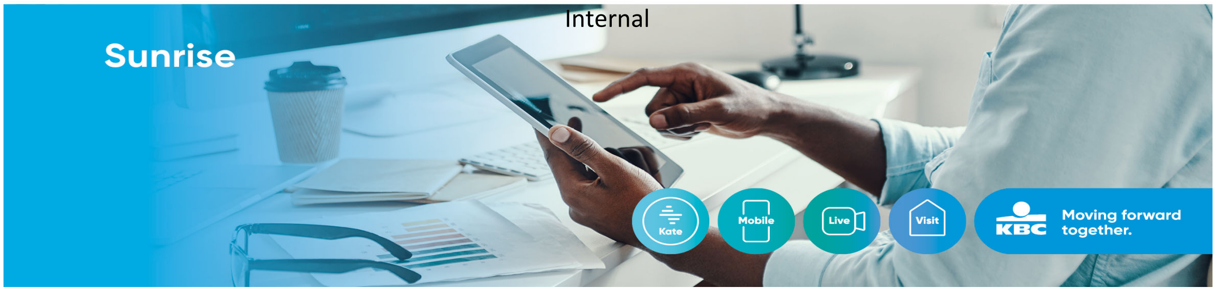

Friday, 25 September 2026

KBC Sunrise Market Commentary

Markets

- News agency Reuters reported yesterday after European market close that **US and Iranian negotiators are exploring a phased path out of war that would involve Tehran reopening Hormuz and Washington lifting its economic naval blockade.** The biggest hurdle remains that neither side wants to move first. When the story broke, Brent crude fell back from $108/b to $105/b where it is trading still. Recall that we come from $98/b-levels on Tuesday. **The news for now did little to stop the violent sell-off on core bond markets.** The US yield curve bear steepened with yields rising by 2.8 bps (2-yr) to 9.1 bps (20-yr). **The US 30-yr yield hit the highest level since June 2004 with the curve closing above the 5%-hurdle for tenors starting at 3-yr.** The US Treasury's 7-yr Note auction showed weakness like Wednesday's 5-yr Note sale despite the outright yield (highest since reintroduction in 2009). It tailed, had a below average bid cover and stuffed primary dealers with an higher award. The EUR swap rate curve steepened as well yesterday, but with the front end ceding 6.3 bps and the long end adding up to 2.5 bps. The damage on stock markets could again have been bigger with main US and European equity indices closing up to 0.5% lower. EUR/USD closed nearly unchanged at 1.1380 with the YtD low at 1.1325 still nearby. Today's eco calendar can't inspire. US/Iran diplomacy and the **long end of core bond curves (real rate normalization) remain the driving market forces.**
- Two **Bank of England deputy governors** yesterday embraced UK money market positioning going into the next, November, policy meeting. **Lombardelli and Breeden** both voted in favour of keeping the policy rate steady at 3.75% in last week's 6-3 vote, but **see a path to a rate hike next.** BoE Lombardelli points to the length of the Middle East conflict which makes the case ***"increasingly likely".*** While she currently sees no second-round effects, it's "too soon to tell". The bigger question to her is **whether capacities are in place to potentially generate such effects.** The **capacity of UK firms to keep absorbing higher energy costs becomes limited.** She makes a contrast with the tightening cycle 5 years ago when indirect effects materialized fast, partly because of the nature of the shock (partly demand-driven). BoE Breeden is also concerned with the duration of the energy shock and said that the MPC ***"may find over time we need to do a lot more".*** That's the scenario UK money markets are taking into account, attaching a 87% probability to a November rate hike, followed by three more 25 bps increases towards 4.75% by next summer. UK Gilts sold off as well this week, though to a lesser extent than European or US bonds. Over the past two days, UK yields added 12 to 14 bps with the belly of the curve slightly underperforming. In absolute terms, UK yields remain below YtD highs set earlier this month. On the FX market, sterling suffered this week from heightened market volatility, relatively weak PMI's (vs EMU & US) and higher energy prices. EUR/GBP is currently testing the 0.8600/11 resistance area. Later today, **Bank of England governor Bailey** speaks on a panel at the Monetary Economics Conference at the University of Oxford.

News & Views

- **Never since at least 1880 were water levels in the Rhine River lower.** The new all-time low comes after the now-previous low seen in August, when the hottest summer ever recorded swept across Western Europe. At Kaub, a critical bottleneck for vessels en route to Germany and Switzerland, the water level fell to 4 centimeters. That's not representing the depth down to the riverbed but the Kaub gauge instead is used by the industry to calculate how much cargo can pass through without vessels being damaged or running aground. **The low levels lead to disruptions on the Rhine, constrictions on the loads carried and higher shipping costs. Meteorologists foresee little improvement at least through the end of the month.**
- **UK consumer confidence barely increased in September,** GfK reported today. Its tracker rose just one point from -14 to -13, nevertheless defying expectations for a drop to -16. Most subseries but the climate for major purchases showed some improvement. **The view on economic situations for the year ahead improved to a two-year high but that did little for households' expectations on their personal finances.** GfK's consumer insights director told Bloomberg that the indicator this month showed a tipping point, one where **the *"Burnham bounce"* is now petering out.** Consumer confidence rose for three months after the new prime minister took over, but sentiment now appears to be fading mainly over inflation concerns.

Graphs

GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2%, reaching neutral territory.** The ECB moved to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to US assets intensifies. This slowed the rise in LT yields with market focus fluctuating between tariff wars to public finances.

US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening.** Downward revisions in the July payrolls report boosted odds that the September FOMC meeting could be a tipping point. **LT bond yields' trend higher on President Trump's big, beautiful, deficit-increasing bill recently stalled on growth concerns.** This flip-flopping between the fiscal and economic theme is here to stay.

EUR/USD

Trump's explosive policy mix (DOGE, tariffs, big beautiful bill) triggered uncertainty on future US economic growth and sustainability of public finances with markets **showing a loss of confidence in the dollar. EUR/USD is in a buy-the-dip pattern on track with a medium term target at 1.2349.** The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation.

EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on sterling earlier this year. The Bank of England is on a quarterly 25 bps cutting cycle since August of last year (4% policy rate currently), with next action expected in November. EUR/GBP tested the November 2023 high at 0.8768, but a break higher didn't materialize (yet).

Calendar & Table

Friday, 25 September		Consensus	Previous
US			
14:30	Durable Goods Orders (Aug P)	-0.30%	1.10%
14:30	Durables Ex Transportation (Aug P)	0.60%	0.40%
14:30	Cap Goods Orders Nondef Ex Air (Aug P)	0.60%	0.00%
14:30	Cap Goods Ship Nondef Ex Air (Aug P)	0.80%	1.20%
16:00	U. of Mich. Sentiment (Sep F)	47.5	47.8
17:00	Kansas City Fed Services Activity (Sep)	-1	-3
Japan			
07:30	Nationwide Dept Sales YoY (Aug)	--	5.10%
EMU			
10:00	M3 Money Supply YoY (Aug)	3.50%	3.40%
Germany			
08:00	GfK Consumer Confidence (Oct)	-27.2	-26.6
Sweden			
08:00	PPI MoM/YoY (Aug)	--/--	0.10%/6.40%
Events			
25SEP	Chinese financial markets closed for Mid-autumn Festival		
25SEP	Rating reviews: Bulgaria, Czech Republic, EU, Italy, Slovenia ...		
11:15	BOE Governor Speaks in Oxford		
11:15	Fed's Williams Participates in Policy Panel		
15:00	Fed's Schmid Participates In Fireside Chat		
20:00	ECB's Vujcic Speaks in Cleveland		
20:00	Fed's Hammack Participates In Policy Panel Discussion		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	5,20	0,08		US	4,92	0,03	DOW	51349,98	-161,61
DE	3,60	0,04		DE	3,33	0,00	NASDAQ	26939,37	3,33
BE	4,26	0,04		BE	3,39	0,00	NIKKEI	66384,61	870,62
UK	5,38	0,03		UK	4,91	0,00	DAX	25266,53	-144,10
JP	3,09	0,01		JP	1,94	0,03	DJ euro-50	6272,5	-27,32
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,62	4,80	4,72	€STR	2,4400	0,0010			
5y	3,62	4,78	4,75	Euribor-1	2,4400	-0,0060	SOFR-1	3,8982	-0,0011
10y	3,64	4,81	4,90	Euribor-3	2,6140	-0,0080	SOFR-3	4,0765	0,0075
				Euribor-6	3,0130	0,0000	SOFR-6	4,2700	0,0204
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1380	-0,0002		EUR/JPY	180,79	0,58	CRB	423,32	3,58
USD/JPY	158,86	0,54		EUR/GBP	0,8609	0,0012	Gold	4298,00	-20,40
GBP/USD	1,3219	-0,0020		EUR/CHF	0,9421	0,0029	Brent	106,60	3,52
AUD/USD	0,7012	-0,0027		EUR/SEK	11,2873	-0,0027			
USD/CAD	1,4138	0,0036		EUR/NOK	10,8196	0,0193			

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