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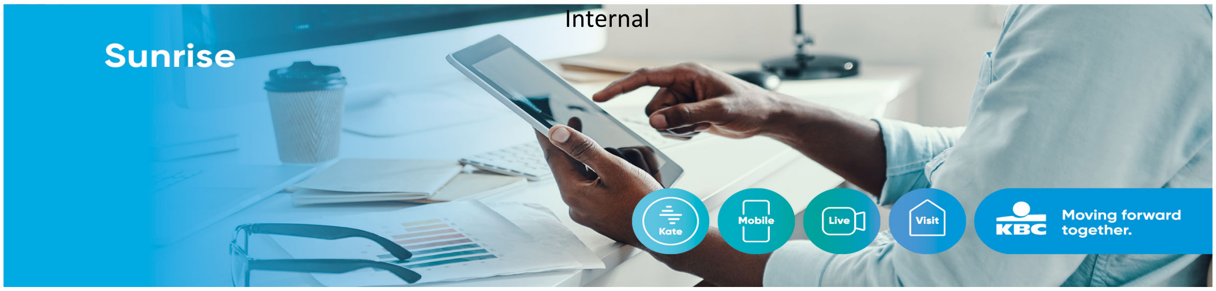


Monday, 28 September 2026

KBC Sunrise Market Commentary

Markets

- Energy prices dropped last Friday with textbook positive spillovers to core bond and equity markets. Stocks rose up to around 1% on Wall Street (Dow Jones). The US Treasury curve bull steepened with yield declines at the front stacking up to almost 8 bps. Bunds lagged Treasuries. The 2-yr yield eased 5 bps. The longest maturities added 4.5 bps. The 30-yr hit a new 15-year high, both on an intraday and closing level basis. Brent retreated slightly from around $106.6 to $104.3 in the close. Gas prices (Dutch TTF) touched the €70/MWh barrier, down from more than €75 before bouncing back to €72. The hoped-for diplomatic breakthrough underpinning the move hit a snag though and prices are again in reverse this morning. **A formal proposal submitted by Iran was shot down by president Trump over the weekend as per Wall Street Journal.** According to another news outlet, Axios, Trump did say he expects negotiations to continue this week. Either way, a barrel of Brent is now trading for $107.5 … with the textbook spillovers to core bond and equity markets. US Treasury yields shift more than 5 bps higher in the 2-5yr bucket. Equities trade mostly in the red in Asian dealings and futures suggest a negative open in Europe (and the US).
- The yen strongly outperformed on FX markets. **JPY rallied throughout the day on reports that president Trump and Japanese PM Takaichi discussed the topic last week.** USTS Bessent later added that he discussed the desirability of a strong yen with his Japanese counterpart. USD/JPY tumbled from just shy of 159 to 157.3. The USD's performance against other peers was of little technical significance. EUR/USD stayed near 1.14 after an attempt to push through failed. DXY tested 101 under JPY pressure. EUR/GBP grinded lower with the recently taken out 0.86 already under attack again. **Bank of England governor Bailey warned that resisting pressure to hike rates is becoming harder the longer high oil and gas prices persist.** While the pass-through effects of it are "quite subdued" still, Bailey said that the central bank cannot wait for second-order inflation effects to materialize before acting. UK money markets into Friday's close attached an 80% probability for a November move with at nearly three quarterly follow-up hikes.
- **ECB's Lagarde appears before the European Parliament today.** Since the ECB's last policy meeting and especially since the August 19 cut-off date used for the forecasts, energy prices have risen sharply. A presentation by Chief Economist Lane last week showed the combined price curve (gas + oil) was spot on the ECB's adverse scenario. In such case, money markets pricing in a 40% probability of a back-to-back October hike may be an underestimation.

News & Views

- **Rating agency S&P raised outlook on the Czech Republic's AA- rating from stable to positive** which reflects an increased likelihood that **Czechia's economy is set to prove resilient to external headwinds** and that its external and public balance sheets will remain strong over the next 12-24 months. Net government debt remains at a low 32% of GDP. And while the Czech government is embarking on a looser fiscal policy, mainly to accommodate higher investment spending, the **debt is projected to remain below a moderate 40% of GDP by 2029.** S&P expects budget deficits to widen to around 3% on average over 2026-2029. Czech growth is seen resilient at 2% this year and 2.4% in 2027. Although Czechia is a net energy importer, the negative repercussions of the global energy price shock have been contained. A strong labor market, rising wages and fiscal expansion are underpinning consumption. Czech exports growth is expected to remain steady, helped by an uptick in demand from Germany. The rating agency also mentions the Czech Republic's **continued economic convergence** progress with higher-income peers.
- **Bulgaria's BBB+ credit rating also received an outlook upgrade, but at Fitch.** It has high hopes that the formation of a **single-party majority government** in the wake of April general elections will finally **end a prolonged period of unstable coalition governments.** This offers the opportunity for progress on structural reform that could support potential growth, higher levels of wealth and improve governance. Bulgarian growth has been close to 3% since 2024 and seen moderating to 2.4% by 2028. Lagged effects of previous fiscal easing measures and a surge in public investments will push the budget deficit from 3.5% of GDP in 2025 to an expected 4.5% this year before falling back in 2027-2028. Public debt is projected to reach 34% of GDP in 2034, from 30% last year.

Graphs

GE 10y yield

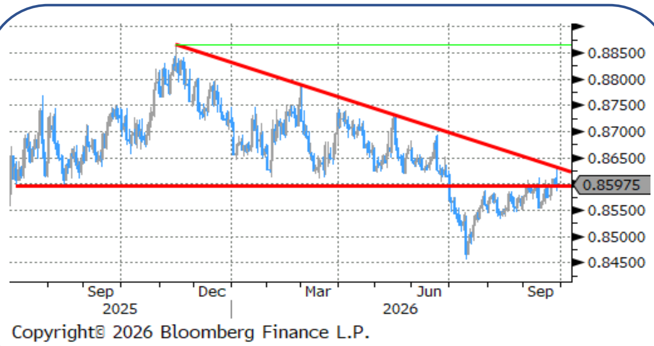
Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2%, reaching neutral territory.** The ECB moved to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to 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

Monday, 28 September		Consensus	Previous
US			
16:30	Dallas Fed Manf. Activity (Sep)	7.8	11.6
Japan			
01:50	PPI Services YoY (Aug)	3.70%A	3.60%
China			
03:30	Industrial Profits YoY/YTD YoY (Aug)	4.20%A/15.7%A	11.20%/17.60%
Events			
11:30	EU to Sell Bonds		
12:00	Belgium to Sell Bonds		
12:00	**BOE's Ramsden Speaks on QT in London**		
16:00	**ECB's Lagarde Speaks in Brussels**		
19:25	Fed's Cook Speaks on AI and Emerging Tech		
19:30	Fed's Barkin in Fireside Chat		

10-year	Close	-1d		**2-year**	Close	-1d	**Stocks**	Close	-1d
US	5,16	-0,04		**US**	4,85	-0,07	**DOW**	51828,62	478,64
DE	3,60	0,00		**DE**	3,28	-0,05	**NASDAQ**	27068,72	129,35
BE	4,26	0,00		**BE**	3,35	-0,04	**NIKKEI**	66227,51	-136,69
UK	5,37	-0,02		**UK**	4,84	-0,07	**DAX**	25408,64	142,11
JP	3,10	0,02		**JP**	1,98	0,04	**DJ euro-50**	6302,82	30,32
IRS	EUR	USD	GBP	**EUR**	-1d	-2d	**USD**	-1d	-2d
3y	3,61	4,73	4,68	**€STR**	2,4400	0,0000			
5y	3,61	4,71	4,72	**Euribor-1**	2,4600	0,0200	**SOFR-1**	3,8957	-0,0025
10y	3,67	4,78	4,91	**Euribor-3**	2,6070	-0,0070	**SOFR-3**	4,0630	-0,0135
				Euribor-6	3,0700	0,0570	**SOFR-6**	4,2451	-0,0249
Currencies	Close	-1d		**Currencies**	Close	-1d	**Commodities**	Close	-1d
EUR/USD	1,1391	0,0011		**EUR/JPY**	179,15	-1,64	**CRB**	418,54	-4,78
USD/JPY	157,28	-1,58		**EUR/GBP**	0,8601	-0,0008	**Gold**	4321,20	23,20
GBP/USD	1,3247	0,0028		**EUR/CHF**	0,9436	0,0015	**Brent**	104,32	-2,28
AUD/USD	0,7023	0,0011		**EUR/SEK**	11,2985	0,0112			
USD/CAD	1,4142	0,0004		**EUR/NOK**	10,8305	0,0109			

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