



Friday, 02 October 2026

KBC Sunrise Market Commentary

Markets

- Bond markets were wildly volatile yesterday. They hit new key milestones at first (eg. UK30-yr 6% and 24-yr highs in the US10-yr & 30-yr). Then news of a potential diesel emergency reserve release in Europe (at US request) prompted an intraday reversal, but one that didn't last. Deep into European and early in US dealings, bond yields started crashing – **though not everywhere**. Net daily changes varied between -9.6 (2-yr) and -1.6 bps (30-yr) in the US. German yields dropped 4 to 14 bps in bull steepening fashion. **The front end received support from a growing number of central bankers pushing back against back-to-back hikes**. It started with ECB president on Monday, who referred to the sharp uptick in long-term bond yields as restraining the economy and reducing the need for tightening. NY Fed Williams on Wednesday said there's no urgency for action after September's move. Dallas Fed Logan, among the FOMC's fiercest hawks, yesterday suggested the Fed could remove the three insurance cuts of last year but her comment on higher term premiums echoed Lagarde. Fed vice chair Jefferson and vice chair for Supervision Bowman, also yesterday, both said they'd need more time before deciding whether additional hikes are needed. **The combined pushback trimmed the October hiking odds to below 30% for the Fed and just 20% for the ECB and strengthens our view of front-end yields having hit a(n at least) short-term ceiling. European inflation figures and the US payrolls report today serve as the main challenges to that view today**. The former is expected at 3.7% for headline and 2.5% for core. Our in-house KBC nowcast stands at 3.63% and 2.33%. Seeing the national inflation numbers, risks are clearly tilted to the upside. The US payrolls report is expected to show 90k employment gains with the unemployment rate steady seen at 4.1%. In light of the recent Fed speak, we consider the market risks now more balanced. A downside surprise could now in fact extend the correction in short-term yields. More (dovish) central bank talk planned today could do the same.
- Turning to the long end of the curve. USTs and Bunds showed early signs of technical exhaustion moves with potential for short term consolidation/**correction**. That turns attention to **intra-EMU sovereign rates**. Spreads vs swap in French OATs, Italian BTPs and Belgian OLOs all finished at the days' highs, respectively at 130 bps (record), 108 bps (1.5 yr high) and 77 bps (14-yr high). That reveals **underlying fiscal stress as the dominating market theme**. The poor performance on European stock markets adds to the case. We believe the topic could stay at the center of attention at least for the remainder of the year. **That's bad news for the euro**. The common currency tanked to its weakest level since May '25 against the USD at 1.1215. EUR/USD eventually closed at 1.1244 but that didn't prevent the **technical picture from weakening dramatically**. Downside potential stretches towards the 1.11(11) area. Euro weakness is the name of the game, also against GBP. We keep a close look at EUR/CHF for further credit risk stress.

News & Views

- Price growth in the Japanese capital accelerated in September as fiscal support measures expired**. The end of a water charge waiver pushed utility prices 3.8% higher M/M and Y/Y and added around 0.25 ppt to inflation. Childcare fees lifted the figure even slightly more as last year's waiver for firstborns created a low base. **Overall, headline inflation increased by 0.1% M/M to be up 2.7% Y/Y (from 1.8% and against 2.5% consensus). Core inflation, ex fresh food and energy, increased by 0.4% M/M and spiked from 2% Y/Y to 3% (vs 2.5% consensus)**. Higher leisure prices contributed as well with holiday demand spiking during a five-day holiday period. The effect might fade next month. Today's "price reset" will **keep pressure on the Bank of Japan** to act to upside inflation risks with underlying inflation hovering above its 2% policy target. Japanese money markets attach a 90% probability to a next rate hike (to 1.5%) at the December policy meeting. The expected policy rate peak is situated at 2% in 12 months' time.
- Hungary's manufacturing sector expanded at a faster pace in September, with the seasonally adjusted PMI rising to 53.2 from 51.5 in August** (vs 51.5 consensus), signaling stronger growth in activity. Nine of the survey's key indicators remained in expansion territory, supported by higher new orders, production and export demand. New orders strengthened significantly, with the index rising 4.5 points to 59.0, while the production index increased 2.4 points to 55.0. Export demand also improved, with the export index climbing to 60.2. Employment conditions remained modestly positive, with the employment index edging up to 50.6. However, cost pressures intensified, as the purchasing prices index rose to 60.4, indicating continued increases in input costs.

Graphs



GE 10y yield

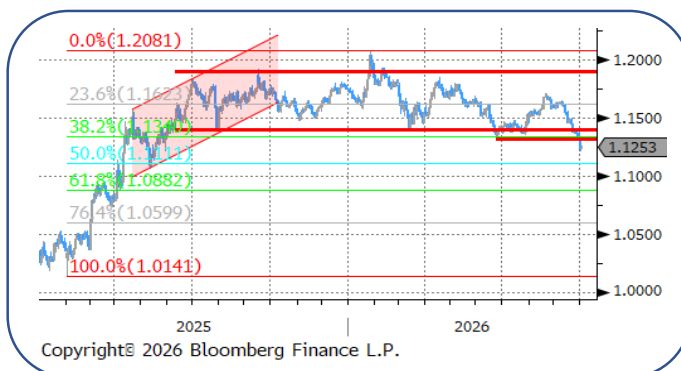
The ECB hiked rates in June and again in September by 25 bps. It responded to rising risks of indirect and second round effects caused by higher oil prices.

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. The euro meanwhile suffers from French and more broadly European fiscal and political risks. EUR/USD broke below the Ytd low with technicals suggesting a return to the 1.11 area.



EUR/GBP

EUR/GBP broke a GBP bullish triangle to the downside; with EUR/GBP falling below the key 0.86 support area with subsequent tests repeatedly failing, the most recent one on euro weakness. Sterling remains better bid as well as the BoE prepares for a first rate hike and going in to the October budget. This will be PM Burnham's litmus test.

Calendar & Table

Friday, 02 October		Consensus	Previous
US			
14:30	Change in Nonfarm Payrolls (Sep)	90k	162k
14:30	Two-Month Payroll Net Revision (Sep)	--	55k
14:30	Change in Private Payrolls (Sep)	81k	127k
14:30	Change in Manufact. Payrolls (Sep)	10k	16k
14:30	Average Hourly Earnings MoM/YoY (Sep)	0.30%/3.10%	0.30%/3.10%
14:30	Average Weekly Hours All Employees (Sep)	34.3	34.4
14:30	Unemployment Rate (Sep)	4.10%	4.10%
14:30	Labor Force Participation Rate (Sep)	61.60%	61.60%
14:30	Underemployment Rate (Sep)	7.70%	7.70%
16:00	Factory Orders (Aug)	0.20%	0.90%
16:00	Factory Orders Ex Trans (Aug)	0.60%	0.60%
Japan			
01:30	Tokyo CPI YoY (Sep)	2.70%A	1.90%
01:30	Tokyo CPI Ex-Fresh Food YoY (Sep)	2.70%A	1.80%
01:30	Tokyo CPI Ex-Fresh Food, Energy YoY (Sep)	3.00%A	2.00%
01:30	Jobless Rate (Aug)	2.50%A	2.40%
01:30	Job-To-Applicant Ratio (Aug)	1.18A	1.18
UK			
10:30	DMP 1 Year CPI Expectations (Sep)	3.30%	3.10%
10:30	DMP 3M 1 Year CPI Expectations (Sep)	--	3.10%
10:30	DMP Output Price Expectations (Sep)	--	3.60%
10:30	DMP 3M Output Price Expectations (Sep)	3.80%	3.80%
EMU			
11:00	CPI MoM/YoY (Sep P)	0.50%/3.70%	0.40%/3.20%
11:00	CPI Core MoM/YoY (Sep P)	0.50%/2.50%	0.40%/2.40%
Italy			
10:00	Retail Sales MoM/YoY (Aug)	--/--	-0.40%/0.80%
Norway			
08:00	Unemployment Rate SA (Sep)	--	2.10%
Events			
00:45	Fed's Logan Speaks At Eleventh District Appreciation Event		
09:00	ECB's Moulin Speaks in Paris		
09:30	ECB's Rehn Speaks in Frankfurt		
10:15	ECB's Sleijpen Speaks in Frankfurt		
13:30	ECB's Vujcic Speaks in Frankfurt		
16:00	Fed's Logan Delivers Welcome Remarks		
18:00	Fed's Goolsbee on Fox Business		
21:35	ECB's Nagel Speaks in Rostock, Germany		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	5,24	-0,04		US	4,79	-0,10	DOW	50926,56	20,51
DE	3,51	-0,08		DE	3,07	-0,14	NASDAQ	26871,6	10,54
BE	4,39	0,02		BE	3,30	-0,05	NIKKEI	68240,71	-716,01
UK	5,40	-0,03		UK	4,80	-0,09	DAX	24939,35	-259,84
JP	3,11	-0,02		JP	1,92	-0,03	DJ euro-50	6175,45	-93,57
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,47	4,69	4,62	€STR	2,4420	0,0050			
5y	3,51	4,72	4,69	Euribor-1	2,4340	-0,0620	SOFR-1	3,9092	0,0050
10y	3,61	4,84	4,91	Euribor-3	2,5890	-0,0280	SOFR-3	4,0252	-0,0129
				Euribor-6	3,0430	-0,0310	SOFR-6	4,1731	-0,0385
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1244	-0,0086		EUR/JPY	177,75	-0,60	CRB	412,02	1,77
USD/JPY	158,09	0,68		EUR/GBP	0,8520	-0,0021	Gold	4202,30	15,60
GBP/USD	1,3197	-0,0068		EUR/CHF	0,9342	-0,0127	Brent	102,31	4,28
AUD/USD	0,6931	-0,0016		EUR/SEK	11,2973	-0,0425			
USD/CAD	1,4222	-0,0010		EUR/NOK	10,8304	-0,0688			

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