



Monday, 05 October 2026

KBC Sunrise Market Commentary

Markets

- EUR/USD sinks below 1.12 this morning for the first time since May 2025.** A hawkish Fed started the EUR/USD decline from 1.16+ mid-September. **Euro weakness took over from dollar strength** last week and forced a technical break on the downside of the sideways EUR/USD trading range in place since the summer of 2025. Friday's disappointing US payrolls report (+29k vs +90k consensus) didn't really hold back the greenback. **The French 10-yr OAT swap spread went from 80 bps at the end of August to a new all-time high above 140 bps last week.** On a closing-level basis, the difference rose by 26 bps last week. From Thursday on, there was **clear contagion towards the likes of Belgium or Italy**, while Germany and the Netherlands profited from safe haven flows. Investors fret about last week's draft budget proposal which implies at least another year with a 5% budget deficit. The efforts from the current 5.4% of GDP shortfall are deemed too little and too late, with the upcoming presidential elections numbing political will further in the minority government and fragmented political landscape. Frontrunning RN is also still to set out its future plans on deficit reduction should it claim victory next spring. **On EMU money markets, investors dialed down on ECB tightening bets** because of the echo to the EMU debt crisis over a decade ago. The EU 2-yr swap rate corrected some 20 bps lower last week. The biggest fear is **the negative feedback loop to the financial sector which could ultimately and worst-case result in a growth-slowing credit crunch.** This economic risk hangs in the balance with **accelerating European inflation and stubbornly high energy prices** (Brent > \$100/b; Dutch TTF > €75/MWh). September EMU CPI printed Friday at 0.6% M/M and 3.8% Y/Y (up from 3.2% and against 3.7% consensus). Even more worrying was the 0.5% M/M acceleration in services inflation which pushed the Y/Y-number back up to 3.2% from 3%. Spanish statistics suggest that package holiday prices were among the drivers of the upside surprise. **Our in-house KBC Nowcast model points to a first 4%(+) reading since September 2023 for headline CPI in October.** Core CPI is seen sticky at 2.4% Y/Y.
- EMU sovereign spreads and French political risk remain the key market themes at the start of trading.** Next technical support in EUR/USD stands at 1.1111/1.1087 (50% retracement on 2025-26 rally; May 2025 low). EUR/GBP is close to a test of the YTD low at 0.8455. The Swiss franc returns in the sweet spot with EUR/CHF trading below 0.93 for the first time since the end of July. The **ECB's annual conference on monetary policy** ("Bridging science and practice") starts today and will generate a lot of headlines. The key note speech is from chief economist Lane. ECB President Lagarde last week in front of European parliament mentioned the tightening impact from higher long term rates, implying less work to be done by the central bank in its inflation battle. It might be too soon for comments on the French situation. The **US services ISM** is set to showcase more US economic strength.

News & Views

- The Brazilian presidential elections are headed towards a run-off on October 25.** Bolsonaro (junior) defied the majority of polls, which favoured incumbent president Lula. **The rightwing contender secured 47% of the vote compared to leftist Lula's 45%.** With neither candidate getting 50% or more of the vote, a run-off will take place. Since most of the other candidates in yesterday's first round come from rightist parties, **Bolsonaro is expected to secure the presidency.** He's considered **the most market-friendly pick** and expectations are for the Brazilian currency and bonds to do well at the open later today. Bolsonaro promised **a "big cut" in spending**, although he hasn't detailed yet how. Lula on the other hand unleashed several stimulus measures, including a boost to social welfare benefits and plans to use public funds to buy delinquent debts in the weeks prior to the election.
- Several people close to the **Spanish prime minister Sánchez** said cabinet ministers and other high-ranking government officials are **considering early elections.** Sánchez spent the weekend with senior figures and could decide on the matter as soon as today. Spain's minority government had been struggling to pass legislation ever since taking office in 2023. But the cabinet really **entered crisis mode after two emergency housing bills were defeated in parliament on Friday.** Affordable housing has become a politically sensitive subject and is a core issue for the Socialist Party's supporter base. The major setbacks come on top of multiplying corruption cases and after the Ceuta incident over the summer, which fueled another wave of social discontent. Next Spanish general elections were already planned next year. They should be held no later than 22 August 2027.

Graphs



GE 10y yield

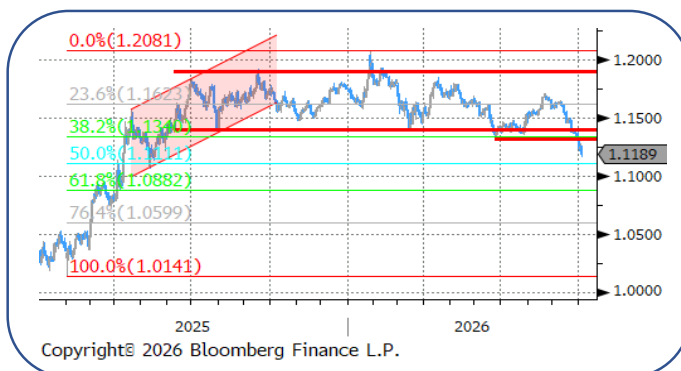
The ECB hiked rates in June and again in September by 25 bps. It responded to rising risks of indirect and second round effects caused by higher oil prices.

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

Monday, 05 October		Consensus	Previous
US			
16:00	ISM Services Index (Sep)	55.0	55.4
16:00	ISM Services Prices Paid (Sep)	73.3	72.6
16:00	ISM Services New Orders (Sep)	60.5	60.9
16:00	ISM Services Employment (Sep)	48.8	47.8
Japan			
07:00	Consumer Confidence Index (Sep)	35.3	35.5
UK			
10:30	S&P Global UK Services PMI (Sep F)	51.7	51.7
10:30	S&P Global UK Composite PMI (Sep F)	51.7	51.7
EMU			
10:00	S&P Global Eurozone Services PMI (Sep F)	53	53
10:00	S&P Global Eurozone Composite PMI (Sep F)	53.1	53.1
10:30	Sentix Investor Confidence (Oct)	4.5	5.1
11:00	PPI MoM/YoY (Aug)	1.90%/7.90%	1.60%/5.80%
Italy			
09:45	S&P Global Italy Services PMI (Sep)	54.5	55.2
09:45	S&P Global Italy Composite PMI (Sep)	53.2	53.6
Spain			
09:15	S&P Global Spain Services PMI (Sep)	57.0	57.8
09:15	S&P Global Spain Composite PMI (Sep)	55.3	55.8
Sweden			
08:30	Swedbank/Silf PMI Services (Sep)	--	55.8
08:30	Swedbank/Silf PMI Composite (Sep)	--	55.9
Events			
05-06OCT	ECB's annual Conference on Monetary Policy		
09:00	ECB's Kocher, Buch, BIS's de Cos speak in Vienna		
09:45	ECB's Nagel Speaks in Sorrento, Italy		
10:00	ECB's Lane Speaks in Frankfurt		
11:00	ECB'S Schnabel Speaks in Frankfurt		
11:00	ECB's Escriva Speaks in Madrid		
13:15	ECB's Kocher Speaks in Vienna		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	5,27	0,03		US	4,82	0,03	DOW	51176,96	250,40
DE	3,46	-0,05		DE	3,08	0,01	NASDAQ	27190,86	319,26
BE	4,34	-0,04		BE	3,35	0,06	NIKKEI	69886,28	1576,82
UK	5,37	-0,03		UK	4,82	0,02	DAX	25231,2	291,85
JP	3,10	0,01		JP	1,92	0,00	DJ euro-50	6238,5	63,05
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,49	4,73	4,68	€STR	2,4400	-0,0020			
5y	3,50	4,76	4,74	Euribor-1	2,4370	0,0030	SOFR-1	3,9102	0,0011
10y	3,58	4,87	4,93	Euribor-3	2,5980	0,0090	SOFR-3	4,0184	-0,0068
				Euribor-6	3,0580	0,0150	SOFR-6	4,1720	-0,0010
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1255	0,0011		EUR/JPY	177,66	-0,09	CRB	410,09	-1,93
USD/JPY	157,85	-0,24		EUR/GBP	0,8498	-0,0022	Gold	4162,30	-40,00
GBP/USD	1,3241	0,0044		EUR/CHF	0,9327	-0,0015	Brent	102,25	-0,06
AUD/USD	0,6956	0,0025		EUR/SEK	11,2988	0,0015			
USD/CAD	1,4251	0,0029		EUR/NOK	10,8213	-0,0091			

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