



Friday, 16 October 2026

KBC Sunrise Market Commentary

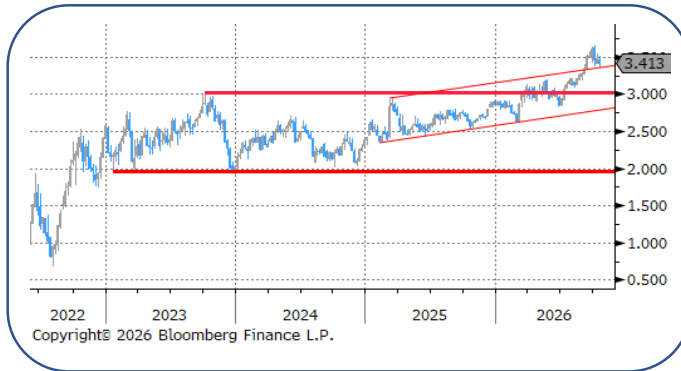
Markets

- “We’re not in that business anymore.” **Fed Warsh in his fireside chat with IMF’s Georgieva during Asian dealings steered clear from any guidance** on the October 28 policy meeting. The objective, he said, is to get policy right. He mostly talked about AI and its consequences otherwise. There will be some for Fed policy, as the central bank plans to adopt AI amongst others to obtain more timely (real-time) data as well as help in the analysis of it. Warsh holds an optimistic view in terms of the economic impact. He expects more productive economies, not least the US. **Such a positive supply shock, however, is one for the long-term. AI would have a short-term impact through the demand-side first**, Warsh said, adding that the US is experiencing a “massive investment surge”.
- Warsh prefers to keep his cards close to his chest because he wants the data to speak for themselves. Yesterday’s batch showed **intensifying upstream price pressures** with September PPIs coming in hot and quicker-than expected. US retail sales were solid last month, especially considering they come after a very strong August. A sharp rebound in the NY Manufacturing Index and jobless claims holding near a low 200k top off the series. US Treasuries shrugged it off with yields tumbling between 6 and 13 bps in bull flattening. Haven flows (Wall Street gapped lower in the open before eventually closing unchanged to higher) and **ongoing short-covering** drove the move. US money markets attached a 75% probability for a Fed rates status quo later this month. Warsh’s appearance has lifted that to 85% this morning. Bunds strengthened too but underperformed vs. Treasuries. German rates fell 1.7-5.3 bps. The 10-yr tenor fell through the 3.4% neckline of a (yield) bearish **head-and-shoulders pattern** before rebounding again into the close. The jury’s out whether it’s a first sign of bottoming. **We expect overall equity/AI sentiment will have the final word, at least from a daily perspective.**
- The sharper US yield drop weighed on the dollar. EUR/USD recovered to north of 1.12 with minor follow-up gains this morning. **We see little further upside potential for the common currency with the French theme slumbering in the background.** Sterling keeps the other hands against the euro. EUR/GBP swapped gains for losses yesterday. The pair grinds further lower this morning. **Closing below 0.8455 on a weekly basis would be an important technical signal.** Bailey in Bangkok this morning said there are signs of an **increase in the neutral rate**. That would mean policy is currently less restrictive than previously thought. The BoE governor said the UK economy is more resilient than expected but signs of second-round-effects coming from the energy price shock remain subdued as of yet. UK money markets widely foresee a November hike (91%).

News & Views

- **MSCI announced the launch of a consultation on a proposal to reclassify the MSCI Indonesia indexes from Emerging Market to Standalone Market status.** A final decision is due by June 2027. From a downgrade perspective, “standalone market” is a bigger setback than the January 2026 warning to move from EM to “Frontier Market” if concerns about shareholders transparency and coordinated trading aren’t fundamentally being addressed. Today’s statement highlights that despite announced reforms, **significant concerns remain around market dysfunction**, including continued suspected coordinated trading behavior and lack of evidence of meaningful enforcement. **Feedback from market participants suggests that a reclassification to Frontier Markets would not properly recognize the depth of the market problems.** MSCI will continue applying the existing freeze on certain index related changes for Indonesian securities resulting from Index Reviews or corporate events until further notice. The Jakarta Composite index dropped 11% today to its lowest level since November 2020. Reclassification to Standalone Market would, amongst others, see removal from EM benchmark indices and a lot of forced selling by EM funds and ETF’s.
- **The Turkish equity market today received a warning similar to the January from MSCI to Indonesia.** MSCI will apply an interim freeze on certain index related changes for Turkish equity securities, effective immediately and until further notice. At the core of the issue are serious concerns about possible coordinated trading through fund holdings closely affiliated with certain smaller listed companies which **undermines the reliability of free float estimates and market integrity**. Should sufficient regulatory progress not be evident by June 2027, MSCI will consider additional measures, including a consultation on a potential reclassification of the MSCI Turkey Indexes from Emerging Market to Frontier or Standalone Market status.

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, 16 October		Consensus	Previous
US			
14:30	New York Fed Services Business Activity (Oct)	-4.1	-8.7
14:30	Import Price Index MoM/YoY (Sep)	1.00%/8.20%	0.70%/0.80%
14:30	Import Price Index ex Petroleum MoM (Sep)	0.60%	0.80%
14:30	Export Price Index MoM/YoY (Sep)	0.90%/9.60%	0.60%/8.60%
15:15	Industrial Production MoM (Sep)	0.40%	0.00%
15:15	Manufacturing Production MoM (Sep)	0.30%	-0.30%
15:15	Capacity Utilization (Sep)	76.50%	76.30%
22:00	Net Long-term TIC Flows (Aug)	-\$30bn	-\$27.9b
EMU			
11:00	Trade Balance SA (Aug)	--	5.0b
11:00	CPI MoM/YoY (Sep F)	0.60%/3.80%	0.60%/3.80%
11:00	CPI Core YoY (Sep F)	2.50%	2.50%
Sweden			
08:00	Unemployment Rate SA (Sep)	--	8.90%
Events			
04:30	ECB's Nagel, Germany's Klingbeil Speak in Bangkok		
04:00	BOE Governor Speaks in Fireside Chat in Bangkok		
05:30	Fed's Warsh in Fireside Chat with IMF's Georgieva		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	5,06	-0,13		US	4,74	-0,06	DOW	52177,69	556,21
DE	3,41	-0,05		DE	3,11	-0,02	NASDAQ	26713,03	20,16
BE	4,27	-0,07		BE	3,28	-0,03	NIKKEI	65632,97	1207,02
UK	5,37	-0,05		UK	4,89	-0,02	DAX	25382,62	84,01
JP	2,94	0,04		JP	1,92	0,01	DJ euro-50	6168,26	-22,11
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,42	4,62	4,72	€STR	2,4400	0,0000			
5y	3,43	4,60	4,74	Euribor-1	2,4560	0,0150	SOFR-1	3,9483	0,0010
10y	3,50	4,68	4,90	Euribor-3	2,6360	0,0080	SOFR-3	4,0779	-0,0092
				Euribor-6	2,9540	0,0300	SOFR-6	4,2295	-0,0199
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1220	0,0063		EUR/JPY	177,26	0,63	CRB	417,49	1,46
USD/JPY	158	-0,33		EUR/GBP	0,8452	-0,0005	Gold	4170,10	62,20
GBP/USD	1,3275	0,0082		EUR/CHF	0,9276	-0,0039	Brent	105,92	-0,14
AUD/USD	0,6921	-0,0051		EUR/SEK	11,1649	-0,0190			
USD/CAD	1,4186	-0,0052		EUR/NOK	10,6268	0,0085			

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