



Friday, 23 October 2026

KBC Sunrise Market Commentary

Markets

- US stock markets ended mixed yesterday with the industrial Dow Jones closing unchanged, the S&P 500 ceding 1.2% and the tech-heavy grinding 2.6% lower. **Rotation out of big AI-names thus continues, making Tuesday/Wednesday's improvement a dead cat bounce.** The Nasdaq closed just above first technical support at 26k. A break lower implies downward potential running to the 25k (200d moving average) to 24425 (July low) area. The same narrative goes for European stock markets which fully reversed two-day gains to close 2% (and more) below Wednesday's closing levels. **Core bonds recorded strong safe haven flows** with German yields dropping 8 to 9 bps in a slight bull steepening mode. **US Treasuries massively outperformed** with yields ending 13 bps (30-yr) to 18 bps (5-yr) lower on the day. At the front end of the curve, money markets are lowering their projected central bank policy rate peaks. The AI build-out narrative worked both growth supportive and inflationary (supply exceeding demand). **Markets now questioning the strength of the AI-narrative potentially weakens one of the tightening arguments even as inflationary pressures from the energy supply chock keep building.** Brent crude this morning approached \$115/b. Since the start of the war against Iran, the oil price only recorded a daily close above that level on two occasions. The latest increase started yesterday on reports about specific plans by the US and Israeli militaries for renewed strikes against Iran after the US midterm elections. Iran later threatened with wider retaliation strikes on economic and civilian targets if the US attacks. The European reference for gas prices (Dutch TTF) pierced through the €91/MWh barrier.
- The widening of EMU sovereign spread is turning ugly.** The French 10-yr OAT swaps spread added 13 bps to 161 bps. The Belgian OLO swaps spread closed 8 bps higher at 98 bps. Both again underperformed Italian BTP's (swaps spread +7 bps). 2027 budget discussions remain ongoing with markets adding pressure for a swift and credible (from a fiscal consolidation perspective) breakthrough. **Decisions by rating agencies could apply additional pressure with France facing a possible rating downgrade at Moody's (Aa3; negative outlook)** which would bring its credit rating in line with Fitch and S&P. The latter takes a look at the Belgian AA- rating, which is still one notch above Moody's and Fitch. On FX markets **EUR/USD holds a balance of weakness around 1.12. The likes of JPY and CHF outperform in current adverse market circumstances.** Today's global PMI releases are probably only a sideshow to ruling themes.

News & Views

- Japanese inflation quickened from 1.9% to 2.1% in September**, topping the BoJ's 2% target. The gauge **excluding fresh food rose to 2.1% as well**, from 1.7% the month before. The indicator that ignores both fresh food and energy rallied more than expected, to 2.4% from 1.9% - **a clear sign of strong and accelerating underlying price momentum.** That's also apparent in **services CPI, which climbed to a six-month high of 1.5%.** The Bank of Japan is said to indicate that underlying inflation has reached the 2% target at the October 30 meeting. That would be a first since that goal was set in 2013. But **despite clear backing from this morning's price data as well as from solid October PMIs, the central bank is expected to keep rates unchanged.** Several "sources" have already informed the media weeks going into the meeting that the Bank of Japan is leaning against in what would be a back-to-back hike later this month. Money markets give it a near zero-probability and instead eye December for a next move to 1.5%. The Japanese yen after some risk-driven swings in early Asian trading is currently hovering near yesterday's close around USD/JPY 157.
- UK GfK consumer confidence in October tumbled to -24 from -13**, the second-lowest in three years and the largest one-month drop since the Brexit referendum of 2016 – excluding the pandemic. The "Burnham boost" over the summer is fully wiped out with **cost-of-living concerns fully taking over again.** The headline drop was broad-based across all sub-indicators and income, age and gender demographic groups. Surging energy prices are increasingly filtering through the UK economy with diesel prices recently having set a record high and a 25% increase in energy bills looming next January. In addition, key mortgage rates are edging closer to 6% after the long-term 30-yr UK yield (be it temporarily) surpassed that bar already earlier this month.

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. The real rate normalisation lifted the German 10-yr yield to its highest level since 2009. **Surging energy prices are now balanced against higher sovereign EMU credit risk premia.** They help cap the strong rising interest rate trend for now.



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 rising **real rates**. Questions around AI-valuations/financing triggered an equity market correction with **safe haven flows pulling US yields off their multi-annual highs**.



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, 23 October		Consensus	Previous
US			
15:45	S&P Global US Manufacturing PMI (Oct P)	55.5	55.9
15:45	S&P Global US Services PMI (Oct P)	58.0	58.8
15:45	S&P Global US Composite PMI (Oct P)	57.6	58.4
16:00	U. of Mich. Sentiment (Oct F)	46.3	46.3
17:00	Kansas City Fed Services Activity (Oct)	1	0
Japan			
01:30	Natl CPI YoY (Sep)	2.10%A	1.90%
01:30	Natl CPI Ex Fresh Food YoY (Sep)	2.10%A	1.70%
01:30	Natl CPI Ex Fresh Food, Energy YoY (Sep)	2.40%A	1.90%
02:30	S&P Global Japan PMI Composite (Oct P)	52.3A	52.3
02:30	S&P Global Japan PMI Mfg (Oct P)	53.3A	54.1
02:30	S&P Global Japan PMI Services (Oct P)	52.0A	51.3
UK			
01:01	GfK Consumer Confidence (Oct)	-24A	-13
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Sep)	-0.10%/1.00%	0.50%/2.40%
08:00	Retail Sales Ex Auto Fuel MoM/YoY (Sep)	-0.10%/1.40%	0.60%/2.70%
10:30	S&P Global UK Services PMI (Oct P)	51.8	52.1
10:30	S&P Global UK Manufacturing PMI (Oct P)	51.8	51.9
10:30	S&P Global UK Composite PMI (Oct P)	51.7	52
EMU			
10:00	S&P Global Eurozone Manufacturing PMI (Oct P)	52.8	52.9
10:00	S&P Global Eurozone Services PMI (Oct P)	52.5	53
10:00	S&P Global Eurozone Composite PMI (Oct P)	52.7	53.1
10:00	ECB 1 Year CPI Expectations (Sep)	3.10%	3.00%
10:00	ECB 3 Year CPI Expectations (Sep)	2.90%	2.90%
Germany			
09:30	S&P Global/BME Germany Manufacturing PMI (Oct P)	53.5	53.9
09:30	S&P Global Germany Services PMI (Oct P)	52.5	52.9
09:30	S&P Global Germany Composite PMI (Oct P)	53.4	53.8
France			
09:15	S&P Global France Manufacturing PMI (Oct P)	50.5	50.6
09:15	S&P Global France Services PMI (Oct P)	50.7	51.2
09:15	S&P Global France Composite PMI (Oct P)	50.3	51.1
Belgium			
15:00	Business Confidence (Oct)	--	-12.1
Events			
Q3 earnings	American Express (13:00) ...		
Rating reviews	Belgium (S&P: AA-, stable), France (Moody's: Aa3, neg.), Germany (S&P: AAA, stable), Slovakia (S&P: A, stable) ...		
16:00	ECB's Cipollone Speaks in Turin		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,95	-0,17		US	4,64	-0,17	DOW	52867,98	11,89
DE	3,33	-0,09		DE	3,04	-0,09	NASDAQ	26008,86	-694,00
BE	4,45	0,01		BE	3,32	-0,03	NIKKEI	62609,28	-298,56
UK	5,33	-0,05		UK	4,89	-0,03	DAX	25371,75	-273,29
JP	2,80	-0,07		JP	1,87	-0,04	DJ euro-50	6087,01	-120,51
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,42	4,51	4,73	€STR	2,4420	0,0020			
5y	3,42	4,49	4,74	Euribor-1	2,4410	0,0100	SOFR-1	3,9230	-0,0118
10y	3,47	4,57	4,86	Euribor-3	2,6770	0,0070	SOFR-3	4,0396	-0,0283
				Euribor-6	3,0190	-0,0110	SOFR-6	4,1722	-0,0611
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1216	-0,0016		EUR/JPY	175,84	-1,78	CRB	414,98	-0,21
USD/JPY	156,77	-1,37		EUR/GBP	0,8370	-0,0016	Gold	4060,40	-89,60
GBP/USD	1,3401	0,0007		EUR/CHF	0,9202	-0,0058	Brent	113,17	4,35
AUD/USD	0,702	-0,0009		EUR/SEK	11,1166	0,0112			
USD/CAD	1,401	-0,0037		EUR/NOK	10,4694	-0,0498			

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