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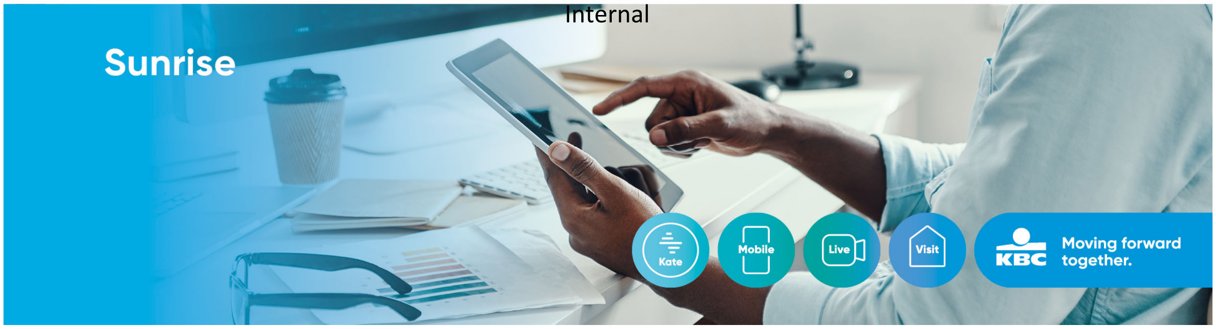

Tuesday, 18 August 2026

KBC Sunrise Market Commentary

Markets

- **The very long end of global yield curves continues to catch most attention.** The US yield curve bear steepened yesterday in absence of any particular economic or monetary input. Daily changes on the curve ranged between +0.6 bps (2-yr) and +4.7 bps (30-yr). **The US 30-yr yield yesterday topped 5.3% for the fist time since the eve of the financial crisis in 2007.** The German and UK curves moved in parallel fashion, but intraday changes were slightly less outspoken. **The UK 30-yr yield closed at its second highest level since 1998 with the German equivalent at the most elevated point since 2011.** The same goes for the 30-yr EU swap rate. **The Japanese 30-yr yield is inches away from the 4.2% top which is the highest in its 27-yr history.** Yesterday, both real yields and inflation expectations inspired the latest leap higher. The normalization of term premia in the face of deteriorating public finances and the absence of central bank bond buying started becoming a theme again as governments start readying draft budgets for next year. The massive amount of corporate bond supply to fund the AI boom might also have its effect. Inflation premia mimic energy prices. **Brent crude cleared the $91/b hurdle** for the first time in over a month as US President Trump says that he is in no hurry to reach a deal with Iran. The problem being that Iran holds that view for longer already, having withstand two spans of military attacks and economic blockades. Iran-backed Houthi rebels are also escalating attacks along the Red Sea coast including the Strait of Bab al-Mandeb. **Rising (real) rates triggered some caution on equity markets** yesterday with key benchmarks correcting up to 0.5% lower both in the US and in Europe. The dollar failed to profit from these settings (higher oil price, weaker risk sentiment) with higher yields obviously being an expression of higher US risk premia. **EUR/USD even went for the 1.16 resistance area, but the first attempt to break the barrier failed.** EUR/USD closed at 1.1580 from a start at 1.1564.

- Yesterday's market themes **will remain in play today** given the second-tier eco calendar. US (June!) housing and production data and German ZEW investor sentiment won't move the market needle. **ECB Chief Economist Lane** joins a panel discussion `Monetary Policy in a Geopolitically Fragmented World' which could provide some interesting headlines. A September ECB rate hike is already discounted though. **This morning's UK labour market report was mixed** with slightly slower than expected employment growth, but somewhat stronger wage growth. Sterling is unbothered at EUR/GBP 0.8555.

News & Views

- Data from the US Treasury Department yesterday showed that **foreign holdings of Treasuries fell in June.** The total amount slipped from $9371 bn to $9299 bn. Foreign holdings were **up 2.3% compared to a year earlier though. The monthly decline was led by Japan, the UK and China.** While remaining the biggest non-US Treasury owner, Japanese holdings eased 2.3% from May to $1116 bn. The peak stood at $1325 bn in November 2021. The UK comes in second. Its holdings fell 1% to $940 bn. **China** takes the third place, even as its Treasury assets **fell by 13% over the past year.** In a monthly perspective, holdings dropped a solid 4% to $633bn, the **lowest since September 2008.**

- **Brazil's finance minister Durigan** in a Bloomberg interview said investors are raising **legitimate questions about government finances,** in particular the unsustainable trajectory that it needs to address. Durigan has been trying to sooth market concerns in a series of meetings and interviews since taking over the job from his predecessor Haddad in March. Things have been escalating over the course of last week, when **polls showed that president Lula da Silva is consolidating his front-runner position over his main competitor Bolsonaro.** The prospect of a victory by the leftist Lula is **fueling fiscal uncertainty and has kept inflation expectations above the 3% central bank target for the foreseeable horizon.** Brazilian assets have paid the price with amongst others the real having depreciated from USD/BRL 5.08 to 5.20 yesterday. The country's main stock index slid around 3.5% over the same period. The Brazilian yield curve has added between 8 and 20 bps in bear steepening fashion over the past week.

Graphs

GE 10y yield

The ECB hiked rates in June by 25 bps. It responded to rising risks of indirect and second round effects caused by higher oil prices. Markets are betting on follow-up hikes later this year after **the US-Iran interim deal was bombed into smithereens.** Real rates rise along with inflation expectations and bring the 2026 multi-year high in focus. **Higher risk premia** (in particular public finances) add a structural layer to higher yields.

US 10y yield

Fed Chair Warsh started on a hawkish note in June: "The Committee will deliver price stability". Market gave the Fed Chair a vote of confidence, but the communication crackdown is causing volatility at the front end of the curve. Real rates are driving the increase at the (very) long end of the curve as fiscal worries seem to make a return. We have **the rare set-up of real yields exceeding inflation expectations.**

EUR/USD

EUR/USD 1.1392 support was cracking before sub-par June payrolls threw the pair a short-term life jacket. **A loss of market confidence after the July Fed press conference** takes some further shine of the US dollar. Still, it takes a move beyond 1.16, however, to make the technical picture neutral again.

EUR/GBP

EUR/GBP broke a GBP bullish triangle to the downside; with EUR/GBP falling below the key 0.86 support area. **Markets initially gave new PM Burnham the benefit of the doubt, but sterling momentum dwindled recently.** The 2026 November budget will be Burnham's litmus test. EUR/GBP found support around 0.845 with first resistance around 0.86.

Calendar & Table

Tuesday, 18 August		Consensus	Previous
US			
14:15	ADP Weekly Employment Change	--	8.250k
14:30	New York Fed Services Business Activity (Aug)	4.6	8.7
14:30	Import Price Index MoM / YoY (Jul)	0.10%/6.70%	0.30%/7.10%
14:30	Import Price Index ex Petroleum MoM (Jul)	0.10%	0.50%
14:30	Export Price Index MoM / YoY (Jul)	0.00%/9.70%	-0.60%/10.20%
14:30	Housing Starts / MoM (Jul)	1345k/-5.90%	1427k/19%
14:30	Building Permits / MoM (Jul P)	1375k/0.60%	1374k/-2.60%
15:15	Industrial Production MoM (Jul)	0.30%	0.10%
15:15	Manufacturing Production MoM (Jul)	0.20%	0.00%
15:15	Capacity Utilization (Jul)	76.30%	76.10%
16:00	Pending Home Sales MoM / NSA YoY (Jul)	0.00%/1.10%	-5.40%/2.3%
UK			
8:00	**Average Weekly Earnings 3M/YoY (Jun)**	**4.00%**	**4.30%**
8:00	Weekly Earnings ex-Bonus 3M/YoY (Jun)	3.40%	3.40%
8:00	Private Earnings ex-Bonus 3M/YoY (Jun)	2.80%	2.90%
8:00	**ILO Unemployment Rate 3Mths (Jun)**	**4.80%**	**4.90%**
8:00	**Employment Change 3M/3M (Jun)**	**130k**	**148k**
8:00	**Payrolled Employees Monthly Change (Jul)**	**0k**	**-4k**
8:00	Claimant Count Rate (Jul)	--	4.40%
8:00	Jobless Claims Change (Jul)	--	6.7k
EMU			
11:00	ZEW Survey Expectations (Aug)	--	23.4
Germany			
11:00	**ZEW Survey Expectations (Aug)**	**30**	**26.3**
11:00	ZEW Survey Current Situation (Aug)	-69.3	-77.6
Events			
13:45	**ECB's Lane Speaks in Dublin**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,72	0,03		US	4,18	0,01	DOW	53459,78	-272,63
DE	3,22	0,02		DE	2,80	0,00	NASDAQ	26644,91	-84,25
BE	3,77	0,01		BE	2,85	0,00	NIKKEI	67596,68	-1623,57
UK	5,06	0,02		UK	4,37	0,01	DAX	26338,61	-101,70
JP	2,95	0,03		JP	1,69	-0,01	DJ euro-50	6530,45	-9,14
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,03	4,05	4,31	€STR	2,1870	-0,0020			
5y	3,08	4,10	4,38	Euribor-1	2,2070	-0,0070	SOFR-1	3,6542	0,0097
10y	3,25	4,31	4,65	Euribor-3	2,5010	-0,0070	SOFR-3	3,7333	0,0048
				Euribor-6	2,6870	0,0160	SOFR-6	3,8355	0,0036
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1580	0,0010		EUR/JPY	184,67	0,34	CRB	397,06	5,65
USD/JPY	159,46	0,14		EUR/GBP	0,8550	0,0003	Gold	4473,70	36,40
GBP/USD	1,3544	0,0006		EUR/CHF	0,9389	-0,0019	Brent	90,87	2,35
AUD/USD	0,7105	0,0021		EUR/SEK	11,0179	-0,0040			
USD/CAD	1,3874	-0,0001		EUR/NOK	10,9132	-0,0138			

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