Public

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Daily Market Overview

Markets

- Today's batch of US economic data centered around the **July PCE deflators.** Serving as the Fed's preferred inflation gauge, they deserve attention even though they are running behind other more timely indicators, such as the CPIs. The former hadn't shown upward inflationary pressures coming from the Iran war just yet. They even decelerated marginally from June. **July's PCE deflator, however, unexpectedly didn't. The headline number matched June's 3.7% vs a consensus view of 3.6%.** The core gauge printed in line with expectations at 3.3%, unchanged from June. Both remain well above the Fed's 2% target. A domestic services barometer that excludes energy and housing remains sticky around (but just below) 4%. **The inflation numbers came on top of other solid data**, including personal income & spending topping the bar, strong durable goods orders as well as capital goods shipments (with upward revisions for the prior month of June) and a Q2 GDP print confirmed at 1.5% annualized but with stronger personal consumption. Today's batch was never going to decide on a September Fed hike, but it keeps the debate at least warm. **The likes of Boston Fed Collins yesterday said she wanted to see further evidence of disinflation just to keep rates steady. Everything else may warrant a hike in the short run.** The market implied probability rises to 40%. Front-end US rates erased earlier minor gains to trade 4.5 bps higher. Longer maturities rise between 1.5 (30-yr) and 3 (10-yr) bps. European/German yields gradually recovered from their minor gap lower (responding to an oil price drop after European hours). Net daily changes for Bund yields stay limited to 1-1.5 bps in a bear steepener. Brent oil trades around $86 per barrel, deepening weekly losses so far to 8.5%. Gas Dutch TTF) appears to have a strong bottom with prices paring daily losses from almost 7% to 4% currently (€64/MWh). UK gilts underperform, potentially following Ofgem communication that it would raise the energy price cap by another 4% from October. The lagging effect of these regulated energy prices have kept UK CPI somewhat in check but the boomerang eventually hits. UK yields add 2-3 bps.
- The US dollar trades a bit higher in a kneejerk reaction but the gains are technically irrelevant. EUR/USD is nearing the weekly lows around 1.165. DXY moves beyond 99 but we've seen that happen a couple of times already, so far without follow-through gains. EUR/GBP inches higher, to 0.8567, be it in the extremely narrow sideways trading range of the last month. European stock markets trade about half a percent higher. Wall Street opens slightly lower, with all eyes for the remainder of the session probably at Nvidia's (after-market) earnings report.

News & Views

- After publishing an improvement in the German business confidence index yesterday, **IFO today reported that export expectations in Germany rose sharply in this month.** The Export Expectations index rose to +9.6 points in August, up from -2.8 points in July. **This was the highest reading from the indicator since February 2022** and the sharpest increase since June 2020. IFO analyses that manufacturers of electrical equipment continue to be very optimistic, as do manufacturers of data processing equipment and electronic and optical products. The growing digitization of the economy and the high investment in AI are seen as play a role in this this development. The automotive industry is also far more optimistic about its export prospects. New confidence is also emerging among manufacturers of metal products. **IFO indicated that especially exports to the EU are booming.** Exports to China remain sluggish.
- According to the CBI distributive sales survey for the month of August, **UK retailers saw sales volumes falling at a steep pace in the year to August** (balance -48% from -26% in July). However, they expect the rate of decline to slow to -22% in September. Retail sales for the time of year were judged to be "poor", to a greater extent than last month (-26% from -18% in July). September's sales are set to fall short of seasonal norms to a similar degree (-29%). Quarterly data series show that sentiment amongst retailers fell at a quicker rate in August (-29% from -15% in May). **Retailers expect to continue cutting back on investment in the year ahead, but to the least extent in over two years. Headcount in the retail sector fell at a slower pace in the year to August** and is expected to decline at a broadly similar rate next month.

Graphs & Table

US 2-yr yield: solid batch of US eco data, led by PCE not slowing down, keeps September rate hike debate alive

AUD/USD: Aussie dollar extends recent bull run after hotter-than-expected July CPI

EUR/GBP: going nowhere

Nasdaq: all eyes on Nvidia's after-market, high-stakes earnings report

Data source: Bloomberg

German yield	td	-1d	US yield	td	-1d	Stocks	td	-1d
2	2,82	0,01	2	4,22	0,05	DJ euro-50	6496,54	40,91
5	2,95	0,02	5	4,38	0,04	DAX	26374,52	108,38
10	3,22	0,02	10	4,66	0,03	S&P 500	7683,14	5,86
30	3,73	0,02	30	5,18	0,02	Nikkei 225	66262,16	405,73
Spread vs GE (bps)	td	-1d	Currencies	td	-1d	Commodities	td	-1d
BE 10y	55	0,00	EUR/USD	1,1655	-0,0020	CRB	399,87	0,00
FR 10y	85	0,30	EUR/GBP	0,8568	0,0015	Gold	4672,80	-21,70
IT 10y	81	0,90	USD/JPY	159,36	0,1700	Brent	86,97	-1,61

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		**Prague**	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		**Bratislava**	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		**Budapest**	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

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