Friday, 04 September 2026

Daily Market Overview

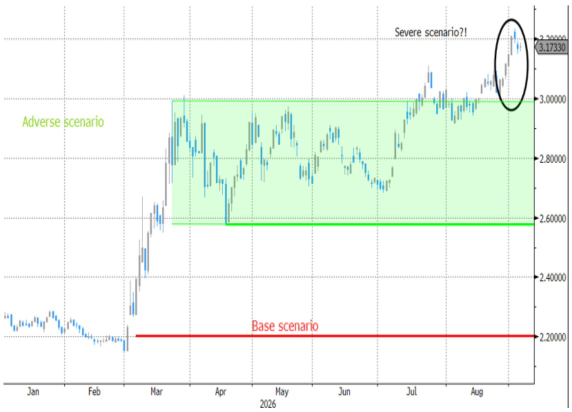
Markets

- **Sometimes the numbers speak for themselves.** The US labour market added 162k jobs in August. Market consensus expected a 55k increase. June and July data showed a cumulative upward revision of 55k. The unemployment rate stabilized at 4.1%, but with a an increase of the labour force participation rate from 61.4% to 61.6%. Wage growth came in line with consensus at 0.3% M/M and 3.1% Y/Y. **Today's payrolls add to the hawkish repositioning on US interest rate markets which started after Fed Chair Warsh's speech in Jackson Hole last week.** Can next Friday's US August CPI make it three (Friday's) in a row to cement a September Fed rate hike? **The US yield curve bear flattens today with yields rising by more than 5 bps at the front end of the curve.** The probability of a Fed hike rises back to >60%. The dollar enjoys the interest rate backing with **EUR/USD returning to 1.16.** Risk sentiment takes a hit and balances USD/JPY just above key support at 155.
- **Next week, the ECB is widely expected to raise its policy rate (2.25% to 2.5%)** for a second time since the start of the US/Israeli hostilities against Iran. The move **fits within its framework guidance** under which the central bank defines three scenarios. The baseline assumes a limited and short-lived energy-supply shock which doesn't require a monetary response. It rapidly became clear for both markets and the central bank that we moved to the second, **adverse**, scenario. **Measured adjustments to interest rates are required** to battle more lasting effects on inflation. The front end of the European curve traded more or less sideways between mid-March and mid-August. In case of the EU 2y swap rate, the roughly 2.75%-3% trading band fitted within the adverse scenario with the market discounting two to three rate hikes depending on the nature of headlines around the US/Iran stalemate. Over the past couple of weeks, **the 2y swap rate broke 3% resistance to set a new top at 3.2%.** We see this as a sign that at least part of the market **discounts a move from the adverse to the final, severe ECB scenario.** It assumes a large and lasting shock with significant second-round effects and a sustained delay in the disinflation process towards the 2% inflation target. It also asks a more profound tightening of monetary policy. This assessment will be the key thing to watch at ECB President Lagarde's press conference. **While we expect her to keep a hawkish bias, we don't see her embracing the switch to the adverse scenario (yet).** From a market point-of-view, this could trigger some short term return action lower at the front end of the yield curve and pull EUR/USD closer to the downside of the long-standing sideways trading range.

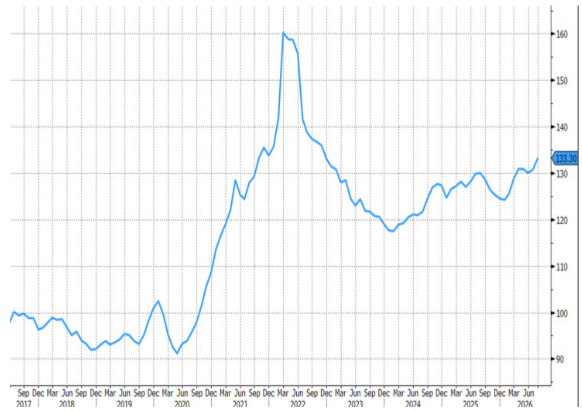
News & Views

- **Czech inflation rose by 0.3% M/M and 1.9% Y/Y In August (up from 1.7% Y/Y).** Prices of food and non-alcoholic beverages declined 1.1% M/M and 4.3% Y/Y (from a negative 3.1% Y/Y in July) mainly reflecting lower meat and dairy prices. Energy prices contributed positively, rising 2.2% M/M and 2.3% Y/Y. Goods prices rose 0.2% M/M and 0.2% Y/Y. **Important for the CNB: service price inflation lost momentum.** The detailed release will show whether this moderation has broadened beyond recreation and culture to housing-related services, where price pressures have remained elevated. **Services prices added 0.4% M/M and 4.5% Y/Y down from 4.7%.** KBC expects headline inflation to move back above 2% during the autumn, due to less favourable base effects and higher energy prices. The larger risk lies in early 2027, when energy and food inflation could push the headline rate materially above 3%. For the CNB, the combination of yesterday's **lower than expected Q2 wage data** and gradually easing services inflation supports an unchanged decision (3.75%). Wage growth remains above the CNB's preferred 4–5% range, however, limiting the case for renewed easing. **The KBC baseline is therefore an extended pause.** The main upside risk remains energy.
- **The FAO world food price index showed broad-based increases in August.** The index rose **1.9% M/M and 2.5% Y/Y,** but it remained 16.8% below the peak reached in March 2022. **The cereal price index rose 2.5% M/M to the highest level since May 2024.** International cereal prices increased across all major grains in August, supported by robust demand, weather-related concerns and continued uncertainty surrounding Black Sea export flows. **World wheat prices rose 2.6% M/M to be 15% higher Y/Y** amid disruptions to Black Sea export logistics, lower production prospects in parts of Europe following hot and dry weather, and a weaker USD. The **vegetable oil price Index was up 0.6% M/M, reaching its highest level since June 2022. The sugar price index rose 11.9% M/M reaching the highest level since June 2025**. The price increase mostly stemmed from growing concerns over the global sugar supply outlook in the 2026/27 season.

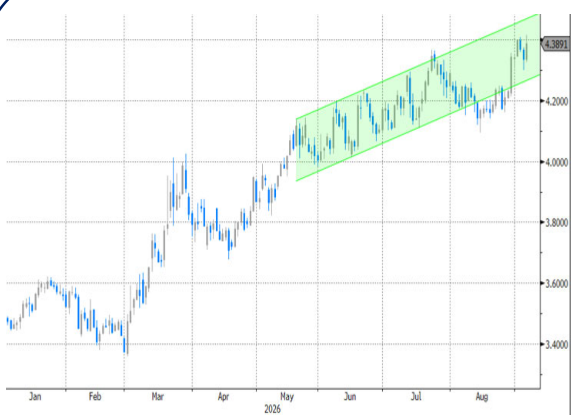
Graphs & Table



EU 2y swap rate: market fears transition from ECB's adverse scenario to the severe one given lasting energy supply shock



FAO food price index extends gradual increase with food prices about to become another worry for central bankers



US 2-yr yield tested cycle high as stellar payrolls extend hawkish repositioning

EUR/USD drops back to 1.16-handle with greenback enjoying interest rate support

Data source: Bloomberg

German yield	td	-1d	US yield	td	-1d	Stocks	td	-1d
2	2,96	0,00	2	4,38	0,04	DJ euro-50	6386,03	3,44
5	3,08	0,00	5	4,54	0,03	DAX	26088,4	85,08
10	3,34	-0,01	10	4,77	0,01	S&P 500	7738,45	-9,26
30	3,81	-0,01	30	5,24	-0,01	Nikkei 225	65020,94	806,46
Spread vs GE (bps)	td	-1d	Currencies	td	-1d	Commodities	td	-1d
BE 10y	55	0,70	EUR/USD	1,1616	-0,0010	CRB	416,70	0,00
FR 10y	85	-0,80	EUR/GBP	0,8594	-0,0001	Gold	4446,40	-93,50
IT 10y	80	-1,10	USD/JPY	155,61	-0,2000	Brent	94,51	-1,01

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 51
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
CSOB Economics – Markets Prague		Shanghai	+86 21 68236128
Jan Cermak	+420 2 6135 3578	Hong Kong	+852 2525 9232
Jan Bures	+420 2 6135 3574	**Prague**	+420 2 6135 3535
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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