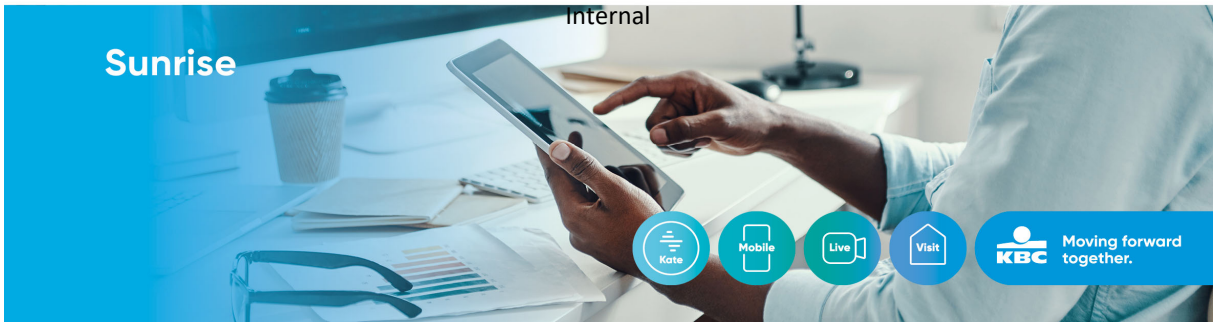
Internal



Thursday, 01 October 2026

KBC Sunrise Market Commentary

Markets

- Strong US economic and labour market data easily offset lower-than-expected, outdated and difficult-to-interpret August PCE inflation figures yesterday. The combination of a significant upward revision to Q2 GDP with companies accelerating hiring (ADP reported +90k vs +75k expected and up from +36k in August) **fit straight into Fed chair Warsh' bullish economic narrative.** US yields fell in a kneejerk reaction to the PCE before reversing quickly. Net daily changes varied between 1.2 (2-yr) to 6.3 (30-yr) bps, resulting in new multi-decade highs at the long end of the curve. The US dollar similarly found its footing after a small intraday hit lower. EUR/USD finished at 1.133, just shy of its recent YtD trough around 1.1312. DXY rose to just shy of 101.5. Dollar strength continues this morning, pushing the EUR/USD pair to 1.1317 and the trade-weighted index to the July high near 101.64. We see little reason to row against the tide. The euro yesterday faced a significant loss of front-end interest rate support. The 2-yr German yield fell almost 9 bps. The 2-yr swap departed from their recent highs around 3.6%. That serves as a cap with money markets not willing to push expected ECB tightening beyond 3.5%. Currently we're back at 3.25%. **Moves happened even as national inflation prints from France, Italy and Germany all point to significant upward risks to Friday's European reading** – currently expected at 3.7% for headline and 2.5% core. **Long-term European bonds lagged, particularly in countries where the public finance narrative is holding sway.** The German 10-yr for example eased by 4 bps but the opposite happened in France. That pushed credit risk premia to new 14-yr highs of 127 bps vs. Bund. Measured against swap, the French premia is just 3 bps away from the previous post-EMU record high in 2012. **Credit and political risk is definitely weighing on the common currency as well.** It helps explain EUR underperformance against GBP too despite a fragile risk environment. Sterling on the other hand enjoyed a boost from an upwardly revised Q2 growth and **PM Burnham explicitly stating that rejoining the EU is an option for the UK** if Labour would be given the mandate to do so. Near-term though, the October 28 Budget is going to be the key catalyst for the pound. EUR/GBP yesterday fell towards the August lows below 0.855/54 (50% retracement on the Dec '24-Nov '25 rally). Technically, we're looking at 0.8455 as important support. The economic calendar today features the US manufacturing ISM and is packed with central bank speeches. One by ECB president Lagarde at the annual conference of the European Systemic Risk Board may probably steer clear from monetary policy but we've heard her assessment before the EP earlier this week. We continue to believe that core bond yields have most upside potential at the long end of the curve and stick to a bullish dollar view.

News & Views

- Bloomberg reports on a **preliminary EU agreement to reduce risk-weighted floors to 5% for the senior portions of certain securitizations down from 10%.** The agreement is subject to discussions in the EU parliament and is part of the EU's savings and investment union. The latest proposal would make it easier for banks to raise funding by selling mortgage- and asset-backed securities as well as freeing up their balance sheets via significant risk transfers. Data from the Association for Financial Markets in Europe showed a total of €1295tn of securitization outstanding by the end of Q1 2026.

- **The Bank of Japan's Q3 Tankan survey didn't bring extra pressure for the central bank to engage in back-to-back rate hikes** (market-implied probability 20%). The 210th short term economic survey of enterprises showed the large manufacturing index rising from 22 to 24 (vs 25 estimate) with the large non-manufacturing index dropping from 37 to 35 (vs 36 estimate). **Both remain upbeat on the outlook. Large enterprises see inflation expectations steady at 2.1%-2.2% 5 years ahead.** Among large non-manufacturers, the share planning price increases exceeded those planning cuts by 38 percentage points, down from 40 ppts in 2Q.

Graphs



GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce to policy rate to 2%, reaching neutral territory.** The ECB moved to an outright data-dependent approach, but overall uncertainty remains elevated. **German bunds ever more gain safe haven status** as uncertainty with respect to US assets intensifies. This slowed the rise in LT yields with market focus fluctuating between tariff wars to public finances.



US 10y yield

The Fed's **priority stays on inflation until the labour market is visibly weakening.** Downward revisions in the July payrolls report boosted odds that the September FOMC meeting could be a tipping point. **LT bond yields' trend higher on President Trump's big, beautiful, deficit-increasing bill recently stalled on growth concerns.** This flip-flopping between the fiscal and economic theme is here to stay.



EUR/USD

Trump's explosive policy mix (DOGE, tariffs, big beautiful bill) triggered uncertainty on future US economic growth and sustainability of public finances with markets **showing a loss of confidence in the dollar. EUR/USD is in a buy-the-dip pattern on track with a medium term target at 1.2349.** The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation.



EUR/GBP

Long end Gilt underperformance due to fiscal risks weighed on sterling earlier this year. The Bank of England is on a quarterly 25 bps cutting cycle since August of last year (4% policy rate currently), with next action expected in November. EUR/GBP tested the November 2023 high at 0.8768, but a break higher didn't materialize (yet).

Calendar & Table

Thursday, 01 October		Consensus	Previous
US			
11:30	Challenger Job Cuts Total/YoY (Sep)	-20.0%/--	52881/-38.50%
14:30	**Initial Jobless Claims**	**200k**	**197k**
14:30	Continuing Claims	1725k	1719k
16:00	**ISM Manufacturing (Sep)**	**55.0**	**54.6**
16:00	ISM Prices Paid (Sep)	73.0	71.1
16:00	ISM New Orders (Sep)	54.7	53.7
16:00	ISM Employment (Sep)	52.0	51.2
Japan			
01:50	**Tankan Large Mfg Index (3Q)**	**24A**	**22**
01:50	**Tankan Large Mfg Outlook (3Q)**	**21A**	**17**
01:50	**Tankan Large Non-Mfg Index (3Q)**	**35A**	**37**
01:50	**Tankan Large Non-Mfg Outlook (3Q)**	**30A**	**28**
01:50	Tankan Large All Industry Capex Estimate FY (3Q)	11.30%A	11.50%
01:50	Tankan Small Mfg Index (3Q)	14A	9
01:50	Tankan Small Mfg Outlook (3Q)	12A	2
01:50	Tankan Small Non-Mfg Index (3Q)	15A	15
01:50	Tankan Small Non-Mfg Outlook (3Q)	10A	8
UK			
10:30	S&P Global UK Manufacturing PMI (Sep F)	52	52
EMU			
10:00	S&P Global Eurozone Manufacturing PMI (Sep F)	52.7	52.7
11:00	Unemployment Rate (Aug)	6.40%	6.40%
Italy			
09:45	S&P Global Italy Manufacturing PMI (Sep)	--	49.6
10:00	Unemployment Rate (Aug)	5.70%	5.80%
Belgium			
11:00	Unemployment Rate (Aug)	--	6.00%
Spain			
09:15	S&P Global Spain Manufacturing PMI (Sep)	50.2	49.5
Sweden			
08:30	Swedbank/Silf PMI Manufacturing (Sep)	--	56.1
Events			
01-07OCT	Chinese financial markets closed for National Day holidays		
03:30	RBA-Financial Stability Review		
10:00	**BOE Governor Delivers Opening Remarks at London**		
10:20	ECB's Cipollone Speaks in Brussels		
10:30	Spain to Sell Bonds		
10:50	France to Sell Bonds		
12:35	Bundesbank Chief Nagel Speaks in London		
14:00	BOE's Mann Speaks in London		
15:05	Fed's Barkin, Collins, Schmid on Panel About Rural America		
15:30	**ECB's Lagarde Speaks in Frankfurt**		
16:00	Fed's Waller Speaks on Federal Reserve Economic Data		
16:00	ECB's Sleijpen Speaks		
16:50	BOE's Pill Chairs Panel		
19:30	Fed's Jefferson Speaks on US Economy and Monetary Policy		
21:00	Fed's Bowman Speaks on Modernizing Financial Regulation		
21:30	Fed's Cook and NY Fed's Williams at Panel		

10-year	Close	-1d
US	5,28	0,05
DE	3,59	-0,04
BE	4,36	0,01
UK	5,42	0,01
JP	3,11	0,04

2-year	Close	-1d
US	4,89	0,01
DE	3,21	-0,09
BE	3,34	-0,05
UK	4,89	-0,03
JP	1,94	-0,01

Stocks	Close	-1d
DOW	50906,05	-443,87
NASDAQ	26861,06	63,52
NIKKEI	68926,63	2172,91
DAX	25199,19	-200,02
DJ euro-50	6269,02	-51,24

IRS	EUR	USD	GBP
3y	3,58	4,79	4,76
5y	3,60	4,81	4,80
10y	3,69	4,90	5,00

EUR	-1d	-2d
€STR	2,4370	-0,0020
Euribor-1	2,4960	0,0060
Euribor-3	2,6170	0,0000
Euribor-6	3,0740	-0,0290

USD	-1d	-2d
SOFR-1	3,9042	-0,0061
SOFR-3	4,0380	-0,0207
SOFR-6	4,2116	-0,0212

Currencies	Close	-1d
EUR/USD	1,1330	-0,0012
USD/JPY	157,41	0,12
GBP/USD	1,3265	0,0033
AUD/USD	0,6947	-0,0039
USD/CAD	1,4232	0,0042

Currencies	Close	-1d
EUR/JPY	178,35	-0,05
EUR/GBP	0,8541	-0,0030
EUR/CHF	0,9469	0,0011
EUR/SEK	11,3398	0,0061
EUR/NOK	10,8992	0,0146

Commodities	Close	-1d
CRB	410,25	0,80
Gold	4186,70	7,00
Brent	98,03	1,87

Contacts

KBC Economics – Markets Brussels	
Mathias Van der Jeugt	+32 2 417 51 94
Peter Wuyts	+32 2 417 32 35
Mathias Janssens	+32 2 417 51 95
CSOB Economics – Markets Prague	
Jan Cermak	+420 2 6135 3578
Jan Bures	+420 2 6135 3574
Petr Baca	+420 2 6135 3570
CSOB Economics – Markets Bratislava	
Marek Gabris	+421 2 5966 8809
K&H Economics – Markets Budapest	
David Nemeth	+36 1 328 9989

Global Sales Force	
Corporate Desk(Brussels)	+32 2 417 45 82
Institutional Desk(Brussels)	+32 2 417 46 25
CBC Desk (Brussels)	+32 2 547 19 51
France	+32 2 417 32 65
London	+44 207 256 4848
Singapore	+65 533 34 10
Shanghai	+86 21 68236128
Hong Kong	+852 2525 9232
Prague	+420 2 6135 3535
Bratislava	+421 2 5966 8820
Budapest	+36 1 328 99 85

Discover more insights at www.kbceconomics.be

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.