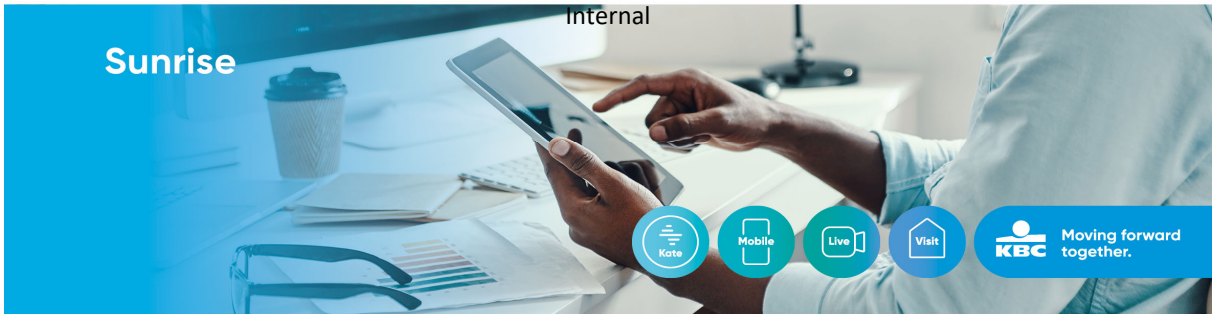
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Tuesday, 06 October 2026

KBC Sunrise Market Commentary

Markets

- **French central bank governor Moulin** argued in an FT interview that France has **to remain master of its own destiny.** He called on politicians to pass a budget this year to reduce spending and narrow the deficit t**o reassure markets on fiscal consolidation.** He stressed that France isn't Greece during the Eurozone crisis, but that there is a risk of being gradually strangled by rising interest rates if it doesn't act. Moulin **didn't want to bring the ECB into the debate** as the safety net lies closer to home by repairing public finances. In a side-step to monetary policy, he joined the rising chorus of central bankers (both in Europe and in the US) who argues that t**he rise in long-term interest rates, tighter financial conditions and the second energy shock may weigh on demand and reduce the need for further action by central banks.** Moulin's German counterpart, Bundesbank Nagel, added though that while uncertainty calls for flexibility, **that doesn't mean it calls for inaction.** Chief economist Lane also sticks with **the measured approach to control inflation** as the ECB faces the second wave of the energy chock with a more resilient EMU economy.

- **The OAT sell-off,** which resulted in a 146 bps intraday 10-yr swap spread high last Friday, **took a breather yesterday.** The spread narrowed from levels around 135 bps at the start of trading towards 127 at the end of the session. While investors scrutinize the budget process, **we'll find out how much further the repricing of French credit risk has to go.** Swift political consensus across the aisle to avoid last year's budget crisis is in the government's and markets' interest. That wouldn't put all uncertainty aside though, with giant event risk looming in the form of next year's presidential elections. **The euro's correlation with OAT's had been very high the past couple of sessions so the single currency also had some space to recoup.** EUR/USD reached a sell-off low at 1.1161 yesterday to eventually close near 1.1215. At the moment there's little room for a broad recovery as **the dollar remains strong overall,** enjoying relative interest rate backing as well. The US yield curve steepened yesterday with daily changes varying from -1.4 bps (2-yr) to +4.3 bps (30-yr). The EUR swap curve steepened as well but with the short end dropping 6.7 bps (2-yr) and the long end being up 2.7 bps (30-yr). Data wise, **the US September services ISM was strong but came in close to expectations.** The headline printed at 54.9, slightly lower than August's 55.4 but virtually spot on the 55 expected. Details were strong with new orders rising at a rapid pace (59.8) and the employment subindex (narrowly) making it back above 50 for the first time since June. Price pressures build. The index rises further to its highest level since July 2022. **While money markets are scaling down October ECB rate hike bets towards zero, they keep the narrative alive with regards to the Fed (25% probability).** Today's eco calendar is thin, centering around ECB & Fed speakers. The US treasury starts its mid-month refinancing operation with a $58bn 3-yr Note auction, but market focus will be on **investor appetite for tomorrow's 10-yr Note sale and Thursday's 30-yr Bond auction.**

News & Views

- **US president Trump yesterday in an executive order eased the limits imposed on the use of red diesel.** This type of gasoil is typically reserved for off-road usage on farms and construction sites and is exempt from the federal diesel tax, which amounts to 24 cents a gallon. Diesel prices in the US (and elsewhere) have hit record highs in recent weeks amid growing shortages due to refinery outages. Trump in recent weeks also considered a potential export ban, amongst others to the EU. **But he backtracked on that idea** after the likes of Germany and France on Friday agreed to release some 100 mln barrels of strategic oil and diesel reserves
- **Former ECB board member Bini Smaghi in an op-ed with the Financial Times called on the central bank to put QT on hold.** He said the shadows of the 2011-2012 crisis are emerging again, putting upward pressure on long-term bond yields everywhere but in core countries. For Bini Smaghi, winding down the balance sheet with the view of going "back to normal" after the expansion over the previous decade is **difficult to understand in the current stress.** There is nothing inherently "normal" about the size of a central bank's balance sheet given that underlying economic and market conditions fundamentally change over time. QT puts upward pressure on yields while **the transition and its effects remains uncertain and under-assessed.** Bini Smaghi concluded that with inflation being the primary concern, short-term interest rates are the main tool while **the principle of prudence suggest putting QT on hold.**

Graphs



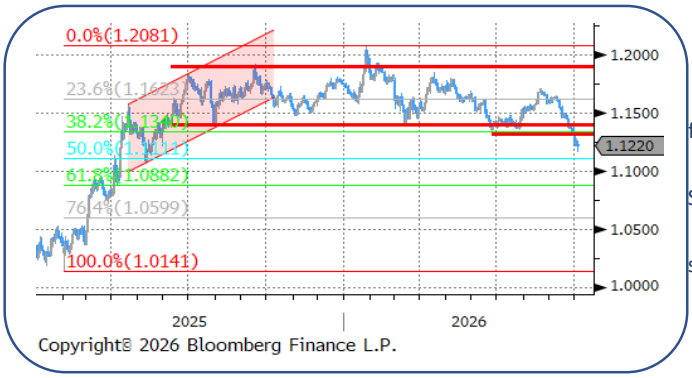
GE 10y yield

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. **Surging energy prices turn October into a live meeting** and money markets are pricing towards a 3.5% depo rate. Real rates rise along with inflation expectations and pushed the German 10-yr yield to a multi-year high. **Higher risk premia** (in particular public finances) add a structural layer to higher yields.



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 easing inflation risk premia. **Real rates will remain a key driver** for structurally higher rates going forward, though. Fiscal concerns are here to stay.



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

Tuesday, 06 October		Consensus	Previous
US			
14:15	ADP Weekly Employment Change	--	20.000k
14:30	Trade Balance (Aug)	-$102.1b	-$88.6b
14:30	Imports/Exports MoM (Aug)	4.20%/1.20%	2.80%/-2.10%
EMU			
11:00	Retail Sales MoM/YoY (Aug)	0.20%/1.00%	-0.60%/0.60%
Germany			
08:00	Factory Orders MoM/WDA YoY (Aug)	-1.00%/13.10%	2.50%/13.10%
Czech Republic			
09:00	**CPI MoM/YoY (Sep P)**	**-0.10%/2.40%**	**0.30%/1.90%**
Spain			
09:00	Industrial Production MoM/SA YoY (Aug)	-0.50%/2.40%	0.60%/2.30%
Events			
05:35	Japan to Sell 10-Year Bonds		
10:00	ECB's Rehn Speaks in Helsinki		
10:30	BOE's Mann Speaks in Fireside Chat		
11:30	Germany to Sell EU6 Billion of 2028 Bonds		
13:45	ECB's Zigman Speaks in Vienna		
15:00	ECB's Cipollone Speaks at MNI Event		
15:05	**Fed's Williams Moderates Panel**		
16:45	Fed's Musalem Gives Welcoming Remarks		
19:00	U.S. To Sell USD58 Bln 3-Year Notes		
19:15	Fed's Schmid Speaks in Fireside Chat		

10-year	Close	-1d
US	5,27	0,03
DE	3,46	-0,05
BE	4,34	-0,04
UK	5,37	-0,03
JP	3,10	0,01

2-year	Close	-1d
US	4,82	0,03
DE	3,08	0,01
BE	3,35	0,06
UK	4,82	0,02
JP	1,92	0,00

Stocks	Close	-1d
DOW	51176,96	250,40
NASDAQ	27190,86	319,26
NIKKEI	69886,28	1576,82
DAX	25231,2	291,85
DJ euro-50	6238,5	63,05

IRS	EUR	USD	GBP
3y	3,49	4,73	4,68
5y	3,50	4,76	4,74
10y	3,58	4,87	4,93

EUR	-1d	-2d
€STR	2,4400	-0,0020
Euribor-1	2,4370	0,0030
Euribor-3	2,5980	0,0090
Euribor-6	3,0580	0,0150

USD	-1d	-2d
SOFR-1	3,9102	0,0011
SOFR-3	4,0184	-0,0068
SOFR-6	4,1720	-0,0010

Currencies	Close	-1d
EUR/USD	1,1255	0,0011
USD/JPY	157,85	-0,24
GBP/USD	1,3241	0,0044
AUD/USD	0,6956	0,0025
USD/CAD	1,4251	0,0029

Currencies	Close	-1d
EUR/JPY	177,66	-0,09
EUR/GBP	0,8498	-0,0022
EUR/CHF	0,9327	-0,0015
EUR/SEK	11,2988	0,0015
EUR/NOK	10,8213	-0,0091

Commodities	Close	-1d
CRB	410,09	-1,93
Gold	4162,30	-40,00
Brent	102,25	-0,06

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