DB morning note with your coffee

> **Date:** 20 October 2026 at 08:39:22 BST

> Good Morning,
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> **Europe: Renewed French Stress & Energy Risks**
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> - French sovereign stress is back: 10yr OAT yields jumped 13bps to 4.93%, the highest close since 2002, following renewed political unrest
> - The 10yr OAT-Bund spread widened to 148bps, its highest closing level since 2012, with some contagion into Italian and Spanish spreads
> - European equities suffered, particularly financials, with the STOXX Banks down 2.1% and French banks among the biggest losers
> - EUR/USD fell 0.23% to 1.1213, although the euro has recovered slightly this morning as unrest in France eased overnight
> - European gas prices reached a post-2022 high of €88/MWh, up almost 22% in October, pushing short-term inflation expectations higher
> - The combination of fiscal/political stress and renewed energy inflation is increasing concerns over Europe's growth outlook while keeping pressure on ECB expectations
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> **US & AI: Tentative Stabilisation, but Volatility Persists**
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> - The recent AI/tech sell-off temporarily stabilised, with the Philly Semiconductor Index gaining 1.6% and ending an eight-session losing streak
> - The Nasdaq gained 1.1% and S&P 500 rose 0.4%, although market breadth remained weak, with almost two-thirds of S&P constituents declining
> - Improved growth sentiment pushed US Treasury yields higher, with 2yr and 10yr yields rising around 6.5bps to 4.77% and 5.14%, respectively
> - Markets also priced in additional Fed tightening, with 74bps of hikes priced through June 2027
> - However, the AI recovery is proving fragile: Asian tech has sold off again overnight, with the KOSPI down more than 4% and SK Hynix falling over 5%
> - The key question remains whether the US tech rebound can broaden and persist or whether AI-related volatility continues to dominate global equity sentiment
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> **Oil, Geopolitics & Macro Watch**
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> - Brent remains near five-month highs around $110/bbl, despite briefly retreating on reports of possible progress in US-Iran negotiations
> - Renewed Iranian rhetoric around the Strait of Hormuz quickly reversed that optimism, keeping geopolitical risk premia elevated
> - Longer-dated Brent contracts are also rising, suggesting markets increasingly expect elevated oil prices to persist into 2027
> - In China, the PBOC kept its key lending rates unchanged for a 17th consecutive month, as stronger Q3 growth reduced the immediate need for stimulus
> - Canadian inflation surprised modestly to the downside, while US housing sentiment fell to its lowest level since 2012
> - Today’s focus: UK unemployment, US housing starts/building permits, German PPI and ZEW, alongside BoE commentary and earnings from Netflix, United Airlines and General Motors
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> **Selected Headlines:**
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> - US DELAYS TRANSFER OF MISSILES NEEDED BY UKRAINE: WAPO
> - KIUCHI: WANT TO ATTEND OCT. BOJ MEETING IF SCHEDULE ALLOWS
> - CHINA IS STUDYING POLICIES TO BOOST DOMESTIC CONSUMPTION: NDRC
> - JAPAN 20-YR BOND SALE DRAWS STRONGEST DEMAND RATIO ON RECORD
> - UK TREASURY EXPECTED TO STUDY BRITAIN MOVING CLOSER TO EU: FT
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> **G10 FX Overnight:**
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> - Risk/USD: APAC trading was subdued, with regional equities failing to follow Wall Street higher, led by a 3.8% decline in the KOSPI

- The USD softened against every G10 currency, although there were few fresh news catalysts; Lower Treasury yields provided some support for the retracement
- EUR/USD recovered to near Friday's closing level
- Civil unrest in France over the weekend initially widened OAT–Bund spreads and saw EUR gap lower at the open, but the market fallout has remained contained
- EUR/USD has shown notable resilience over the past week, with declines following stronger-than-expected US CPI and widening eurozone sovereign spreads quickly reversed
- Positioning appears short, suggesting a relatively low hurdle for a further corrective move higher
- USD/JPY continued to struggle for sustained downside traction, with recent dips below 158 failing to hold
- Mild demand emerged around this morning's gotobi fixing, although the pair traded heavily afterward
- The 20-year JGB auction recorded its highest bid-to-cover ratio, helping USD/JPY retreat from an intraday high of 158.60 toward the low-158s

Asia FX Desk Thoughts:

- IDR: Sentiment remains biased towards long USDIDR, with investors continuing to view dips as buying opportunities despite ongoing local resistance.
- INR: The preference remains to buy USDINR on dips, with recent positioning clean-up viewed as tactical rather than a change in the underlying bullish USD view. Demand for the 6M-12M INR curve remains strong, supported by positive carry and favourable roll-down dynamics.
- TWD: The desk remains constructive on TWD and would look to add short USDTWD exposure once equity-driven outflows stabilise.
- KRW: The bias remains for USDKRW to grind lower, with exporter selling and offshore investor demand continuing to support KRW.

G10 FX Vol Colour:

- Since the beginning of the week (ex the open) realized has been coming down and that has been translated today in the vol space with all blocks trading lower on the day
- We have taken out 0.1v out so far in 1m EUR whilst 1m JPY and AUD are down 0.2v so far
- In yen, we continue to see the same pattern we had previously discussed with the RR anti-performing as spot is trading lower and the 158 handle (possibly even 157 now) seemingly being a big pivot level for the market
- This is likely due to intervention risk premia being taken out of the curve as the move is relatively orderly and small so far but if it was to continue and pick up in pace, I would expect the RR to perform again and interest in owning downside to pick up
- Finally in NZD, elections have been in focus here for a while which has kept the 1m and 2m tenors bid in the market, however, we have started to see supply from RV type names fading the elevated vols, supplying the market which had been short but seems to be in a more comfortable position now

Overnight Data Releases:

- China – 1-Year Loan Prime Rate 3.00% vs est. 3.00% (prior 3.00%) / 5-Year Loan Prime Rate 3.50% vs est. 3.50% (prior 3.50%)
- Spain – PPI MoM 1.40% vs prior 1.40% / PPI YoY 4.20% vs prior 3.30%
- Finland – Unemployment Rate 10.40% vs prior 9.10%
- Japan – Tokyo Condominiums for Sale YoY -40.10% vs prior -12.40%
- Egypt – Trade Balance -6374.0m vs prior -8041.0m
- Switzerland – Exports Real MoM -0.10% vs prior -8.60% (revised -9.70%) / Imports Real MoM 7.00% vs prior -3.10% (revised -3.60%) / Swiss Watch Exports YoY 11.70% vs prior 9.10%
- Germany – PPI MoM 1.90% vs est. 1.60% (prior 1.10%) / PPI YoY 6.70% vs est. 6.30% (prior 4.60%)
- United Kingdom – ILO Unemployment Rate 4.70% vs est. 4.90% (prior 4.90%) / Average Weekly Earnings 3M/YoY 3.70% vs est. 3.80% (prior 3.90%) / Weekly Earnings ex Bonus 3M/YoY 3.70% vs est. 3.60% (prior 3.50%, revised 3.60%) / Private Earnings ex Bonus 3M/YoY 3.00% vs est. 3.00% (prior 2.90%) / Employment Change 3M/3M 102k vs est. 5k (prior 66k) / Payrolled Employees Monthly Change 13k vs est. -8k (prior -26k, revised 1k) / Claimant Count Rate 4.40% vs prior 4.40% / Jobless Claims Change 30.3k vs prior 27.8k (revised 7.0k)

Day Ahead:

Today's data releases include UK unemployment for August, US housing starts, building permits and German PPI for September, and the German ZEW survey for October. Otherwise, central bank speakers include the BoE's Greene. Finally, today's earnings releases include Netflix, United Airlines and General Motors

Countries	BST	Data/ events	Survey	Previous	Revised	Bloomberg Ticker
PD	08:30	Average Gross Wages (Sep)		-2.6%(5.6%)		POWGMOM Index(POWGYOY
PD	08:30	Construction Output (Sep)		(6.7%)		(POOSCYOY Index)
PD	08:30	Employment (Sep)		-0.2%(-0.8%)		POEYMOM Index(POEYYOY Ir
PD	08:30	PPI (Sep)		0.6%(4.2%)		POPPIMOM Index(POPPIYOY
PD	08:30	Sold Industrial Output (Sep)		-7.5%(4.3%)		POISCMOM Index(POISCYOY
ITA	09:00	Current Account Balance (Aug)		7384m		ITCAEUR Index
EMU	09:00	ECB Current Account (Aug)		27.6b		EUSATOTN Index
SP	09:00	Trade Balance (Aug)		-5224m		SPTBEUBL Index
EMU	10:00	Construction Output (Aug)		0.0%(-2.0%)		EUCPTSAM Index(EUCPTWDY
DEU	10:00	ZEW Survey Current Situation (Oct)		-47.1		GRZECURR Index
DEU	10:00	ZEW Survey Expectations (Oct)		34.7		GRZEWI Index
EMU	10:00	ZEW Survey Expectations (Oct)		25.8		GRZEEUEX Index
HU	13:00	Central Bank Rate Decision		5.5%		HBBRANN Index
USA	13:15	ADP Weekly Employment Change		24.750k		ADPUWKLY Index
USA	13:30	Building Permits (Sep P)	1388k	1403k		NHSPATOT Index
USA	13:30	Building Permits (Sep P)	-2.0%	-2.1%		NHCHATCH Index
USA	13:30	Housing Starts (Sep)	1300k	1275k		NHSPSTOT Index
USA	13:30	Housing Starts (Sep)	1.9%	-2.6%		NHCHSTCH Index
USA	13:30	Philadelphia Fed Non-Manufacturing Activity (Oct)		-22		PNMARADI Index
USA	15:00	Pending Home Sales (Sep)	0.5%	0.3%		USPHTMOM Index
USA	15:00	Pending Home Sales (Sep)		(-4.9%)		(USPHTYOY Index)
MX	16:00	International Reserves Weekly		256344m		MXIRINUS Index
GBR	18:00	BOE's Greene Delivers Speech at LSE				

Kind Regards,

Charles Donaldson
FX Sales | Institutional Client Group

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