DB morning note with your coffee

Date: 23 October 2026 at 08:09:00 BST

Good Morning and Happy Friday,

Triple Threat of European Stress, AI Fears and Energy Prices:

- Markets endured a broad risk-off session as three pressures converged simultaneously: escalating concerns around France's fiscal position, renewed doubts over AI-driven growth expectations, and another sharp rise in energy prices.
- France emerged as the focal point of market stress, with sovereign spreads widening to levels last seen during the Eurozone sovereign debt crisis.
- Investor sentiment deteriorated further as AI-related stocks came under heavy pressure, prompting concerns about the sustainability of recent technology-led equity gains.
- Geopolitical tensions in the Middle East intensified, supporting further gains in oil and gas prices and reinforcing inflation concerns.
- The resulting tightening in financial conditions led investors to question whether the ECB will be able to deliver further rate hikes this year.
- Despite resilient economic data, markets prioritised financial stability concerns, triggering a powerful flight-to-quality into core government bonds.

Markets:

- European markets experienced significant stress, with the Franco-German 10yr spread widening to its highest level since 2011 and Italian spreads also moving sharply wider.
- European risk assets weakened materially, with the STOXX 600 falling -1.05%, the STOXX Banks Index dropping -4.17%, and European high-yield spreads reaching their widest level since April 2025.
- US equities sold off sharply, with the S&P 500 declining -1.21% and the NASDAQ falling -2.60%, while semiconductor shares recorded their worst session since June.
- Defensive sectors outperformed strongly, with consumer staples and utilities posting significant gains as investors rotated away from growth-sensitive assets.
- Brent crude rose +4.00% to a five-month high, whilst European natural gas futures climbed to their highest level since 2022.
- Government bonds rallied strongly amid safe-haven demand, with the 10yr Treasury yield posting its largest daily decline since August 2024 and Bund yields also moving sharply lower.

Overnight Commentary:

- JPY has reasserted its safe-haven role as Treasuries attracted strong demand and USD/JPY became more responsive to narrowing rate differentials.
- Systematic accounts were notable sellers of USD/JPY after rebuilding long positions during the September and October recovery.
- USD/JPY initially extended its decline to 156.08 following a stronger-than-expected Japanese CPI reading before recovering later in the session.
- Strong demand around the Tokyo benchmark drove a rebound in the pair, which subsequently extended above 157 before stabilising.
- The recovery occurred despite weaker regional equity markets, although US yields and oil prices edged higher during APAC trading. Risk sentiment and rate differentials remain the key near-term drivers against a fragile broader market backdrop.
- New Zealand inflation was softer than expected on the headline measure, although core inflation measures firmed. AUD/NZD initially moved higher before reversing and finishing near the middle of its trading range.

G10 Views:

- EUR held up well despite risk aversion, reflecting broader USD softness rather than EUR strength.
- CHF outperformed on renewed safe-haven demand as risk sentiment deteriorated.
- AUD lagged amid the risk-off tone but losses were relatively modest; vulnerable to further downside if sentiment worsens.
- NZD underperformed alongside AUD, though declines against USD remained contained.

Headlines:

- JAPAN'S GOVERNMENT IS CONSIDERING SCALING BACK GASOLINE SUBSIDIES FROM AS EARLY AS DECEMBER, OFFICIALS SAY - RTRS
- KIUCHI: MUST MAKE CAREFUL DECISIONS TO AVOID RETURN TO DEFLATION
- TRUMP: WILL RELEASE $150M TO INCREASE US REFINING CAPACITY
- GOLD DROPS BELOW $4,000/OZ AS PRECIOUS METAL SELL-OFF DEEPENS
- TRUMP SAYS BOMBARDIER INVESTING $270M IN TEXAS, KANSAS, INDIANA

Vol Colour:

- JPY vols experienced a sharp round-trip this morning, with 1m vol trading from 7.9 up to 8.5 before falling back to around 7.85. Spot recovered quickly from its lows, removing much of the initial demand for protection.
- Local Japanese structured-forward activity continues to supply back-end volatility (1y-3y sector). Overall volatility remains heavy across the curve as supply continues to outweigh demand.
- CNH volatility continues to grind lower, with 1m volatility offered around 1.425. Interest remains concentrated in maturities below two months, with very little demand further out the curve.
- The overall theme remains one of persistent volatility compression and limited hedging demand.
- KRW - Clients continue to position for KRW strength, with demand for KRW appreciation structures remaining robust. Vols remain bid and close to recent highs despite increasingly leveraged positioning.
- Risk reversals are also well supported due to continued downside supply. There has been very little profit taking so far, although year-end profit taking could trigger a sharp vol compression if KRW continues to strengthen.

FX Blog – Stoptoberfest

- The broad euro has continued to trend lower, now down 2% in TWI terms over the past month as the OAT-Bund spread rewidens – albeit in a more orderly fashion than at the start of October
- The biggest winner, helped by its strong fundamentals and continued positive terms-of-trade shock, has been NOK. We close out our shorts
- Amongst our other existing European FX trades, we make some small tweaks. Feedback from recent marketing on the continent suggests a firm bearish bias on the euro
- In respect of the price action, we also close out the EUR/GBP component of our short GBP TWI basket
- We maintain our EUR/CHF shorts
- FX Blog: Stoptoberfest



Overnight Data Releases:

- Australia – S&P Global Composite PMI 47.7 vs prior 51.3 / Manufacturing PMI 49.7 vs prior 49.6 / Services PMI 47.8 vs prior 51.9
- United Kingdom – GfK Consumer Confidence -24 vs est. -14 (prior -13)
- Japan – National CPI YoY 2.10% vs est. 2.10% (prior 1.90%) / National CPI ex Fresh Food YoY 2.10% vs est. 2.10% (prior 1.70%) / National CPI ex Fresh Food & Energy YoY 2.40% vs est. 2.30% (prior 1.90%) / S&P Global Composite PMI 52.3 vs prior 52.3 / Manufacturing PMI 53.3 vs prior 54.1 / Services PMI 52.0 vs prior 51.3 / Nationwide Department Store Sales YoY 4.20% vs prior 2.60% / Tokyo Department Store Sales YoY 9.30% vs prior 5.70%
- India – HSBC Composite PMI 56.7 vs prior 55.9 / Manufacturing PMI 54.9 vs prior 55.1 / Services PMI 56.2 vs prior 55.2
- United Kingdom – Retail Sales MoM -0.40% vs est. -0.10% (prior 0.50%, revised 0.70%) / Retail Sales YoY 0.80% vs est. 1.00% (prior 2.40%, revised 2.70%) / Core Retail Sales MoM -0.70% vs est. -0.10% (prior 0.60%, revised 0.90%) / Core Retail Sales YoY 0.80% vs est. 1.40% (prior 2.70%, revised 2.90%)

Day Ahead:

Looking at the day ahead now, data releases will include the October flash PMIs from Europe and the US, along with UK retail sales for September, and the University of Michigan's final consumer sentiment index for the US in October. Otherwise from central banks, we'll get the ECB's Consumer Expectations Survey for September, and we'll hear from the ECB's Cipollone

Countries	BST	Data/ events	Survey	Previous	Revised	Bloomberg Ticker
FRA	08:15	S&P Global France Composite PMI (Oct P)		51.1		MPMIFRCA Index
FRA	08:15	S&P Global France Manufacturing PMI (Oct P)		50.6		MPMIFRMA Index
FRA	08:15	S&P Global France Services PMI (Oct P)		51.2		MPMIFRSA Index
DEU	08:30	S&P Global Germany Composite PMI (Oct P)		53.8		MPMIDECA Index
DEU	08:30	S&P Global Germany Services PMI (Oct P)		52.9		MPMIDESA Index
DEU	08:30	S&P Global/BME Germany Manufacturing PMI (Oct P)		53.9		MPMIDEMA Index
PD	08:30	Unemployment Rate (Sep)		5.8%		POUER Index
EMU	09:00	ECB 1 Year CPI Expectations (Sep)		3.0%		ECIENDEA Index
EMU	09:00	ECB 3 Year CPI Expectations (Sep)		2.9%		ECIETDEA Index
RU	09:00	Money Supply Narrow Def				RMSNM1 Index
EMU	09:00	S&P Global Composite PMI (Oct P)		53.1		MPMIEZCA Index
EMU	09:00	S&P Global Manufacturing PMI (Oct P)		52.9		MPMIEZMA Index
EMU	09:00	S&P Global Services PMI (Oct P)		53		MPMIEZSA Index
RU	09:30	Bloomberg Oct Russia Economic Survey				
GBR	09:30	S&P Global UK Composite PMI (Oct P)		52		MPMIGBCA Index
GBR	09:30	S&P Global UK Manufacturing PMI (Oct P)		51.9		MPMIGBMA Index
GBR	09:30	S&P Global UK Services PMI (Oct P)		52.1		MPMIGBSA Index
PD	09:40	Bloomberg Oct Poland Economic Survey				
TU	09:50	Bloomberg Oct Turkey Economic Survey				
USA	11:00	Bloomberg Oct United States Economic Survey				
RU	11:30	Key Rate		14.0%		RREFKANN Index
BZ	12:00	FGV CPI IPC-S				BZW IPCS Index
IN	12:30	Foreign Exchange Reserves				INMORES Index
CAN	13:00	Bloomberg Oct Canada Economic Survey				
MX	13:00	Economic Activity IGAE (Aug)		0.8%(3.4%)		IGAEMOM Index(IGAEYOY Index

BZ	13:00	IBGE Inflation IPCA-15 (Oct)	0.7%(4.5%)	BZPIIPMO Index(BZPIIPYO Index
CAN	13:30	Retail Sales Ex Auto (Aug)	-0.7%	CARSXASC Index
CAN	13:30	Retail Sales (Aug)	-0.7%	CARSCHNG Index
BE	14:00	Business Confidence (Oct)	-12.1	BEBCI Index
USA	14:45	S&P Global US Composite PMI (Oct P)	58.4	MPMIUSCA Index
USA	14:45	S&P Global US Manufacturing PMI (Oct P)	55.9	MPMIUSMA Index
USA	14:45	S&P Global US Services PMI (Oct P)	58.8	MPMIUSSA Index
EMU	15:00	ECB's Cipollone Speaks in Turin		
USA	15:00	U of Mich 1 Yr Inflation (Oct F)	4.7%	CONSPXMD Index
USA	15:00	U of Mich 5-10 Yr Inflation (Oct F)	3.5%	CONSP5MD Index
USA	15:00	U of Mich Current Conditions (Oct F)	44.7	CONSCURR Index
USA	15:00	U of Mich Expectations (Oct F)	47.3	CONSEXP Index
USA	15:00	U of Mich Sentiment (Oct F)	46.3	CONSSENT Index
BZ	16:00	Bloomberg Oct Brazil Economic Survey		
USA	16:00	Kas City Fed Services Activity (Oct)	0	KCSSMCOM Index
MX	16:15	Bloomberg Oct Mexico Economic Survey		

Kind Regards,

Charles Donaldson

Charles Donaldson
FX Sales | Institutional Client Group

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https://www.db.com/en/content/Foreign-Exchange-Disclosures.htm

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