

Monday, 26 October 2026

KBC Sunrise Market Commentary

Markets

- Thursday's tech sell-off eased on Friday (-0.2% for the Nasdaq). Value bore the brunt now: the DJI slid 1.2%. Equities in the euro are fell more than 1% but pared losses to 0.3% in the close. Technicals in the likes of the S&P500 (near 7600 support) and SX5E (re-entering the downward sloping channel and confirming the break below 6118) **warrant caution. Surging energy** triggered bear flattening in the German curve. Changes varied between +0.3 and 2.7 bps. Brent jumped to a six-month high of $117 amid Houthis targeting Saudi energy infrastructure. Uncertainty regarding a US resumption of Iran strikes keeps prices elevated too. Natural gas (Dutch TTF) skyrocketed to €93.8/MWh. While Brent "eases" to €114.5 this morning, gas hit a fresh four year high at €96+. US rates added 3.4-4.9 bps. Contrasting with Europe where October PMI's couldn't pull off the same strong September trick (mostly a French story, though), the US edition was something different. **The composite indicator (57.6) is consistent with GDP growing at a 5% annualized rate.** That's an acceleration from the 4% which Q3 PMI's indicate. The **actual numbers come in on Thursday.** Excluding Covid, "*recent months have seen the best growth spell for US businesses since early 2015.*", the survey owner said. Price pressures intensify, resulting in the **sharpest increase in selling prices for over 4 years** *"to a pace that indicates consumer price inflation is likely to rise further above the Fed's target in the coming months."*
- That leads us to one of the key events of this week: the Fed policy meeting. **The expected rates status quo after the September hike is going to be a tough sell for chair Warsh having the PMI message in mind.** He cannot but deliver a kind of **hawkish pause** or risk pressuring the long end of the curve. Recent (stock) volatility caused markets to no longer fully discount a December hike. That looks like a stretch. Something similar happened for the ECB (<80%). That's an underestimation given the energy price developments. In a speech by chief economist Lane end-September, the combined energy price curve (oil + gas) moved to the adverse scenario. **Things have only turned for the worse since.** And since chair Lagarde's appearance before the European Parliament, the German 10-yr yield fell around 30 bps. **The argument of markets doing the ECB's job therefore weakened.** In general, financial conditions in the US and Europe tightened in the wake of the equity decline but they remain accommodative in a historical perspective. And while the French narrative warrants monitoring, the ECB in theory has other tools to address any unwarranted and disorderly moves than policy rates. The French credit spread stabilized near record highs (vs swap) on Friday. OATs jump this morning after **Moody's refrained from a downgrade**. It kept the Aa3 (negative outlook) **assuming that France will adopt a deficit-reducing 2027 budget.** The currencies involved have been going nowhere for the last two weeks. EUR/USD is hovering around the 1.12 big figure. GBP readies for Burnham's Autum Budget Wednesday.

News & Views

- **Brazilian President Lula da Silva beat the odds in the presidential run-off vote against rightwing challenger Flavio Bolsonaro, son to former president Jair Bolsonaro.** Lula da Silva is the first politician to win the run-off after coming in behind in the first round ballot. Bolsonaro surprisingly won that toss-up on October 4th with 47% of the vote against 45% for the incumbent. Yesterday's tally ended at 51.8% in favour of fourth term for Lula against 48.2% for Bolsonaro. The latter didn't want to admit defeat: *"What happened today was not normal. It was unacceptable. For the first time in history, a Supreme Court Justice has used his pen to change the rules of the game."* He referred to an order to extend voting by 2 hours at around the time when polling stations were scheduled to close linked to complaints by Lula's Workers' Party about problems with public transport across several states. **Brazilian markets are set for a rude awakening today.** Local assets rallies (since) early October with a Bolsonaro-government seen as more market-oriented/friendly with a stronger commitment to consolidation of public finances.
- **RBA Assistant governor Hunter said that the Australian central bank is not quite yet done fighting inflation.** She didn't want to front run the outcome of the November 3 policy decision but confirmed the commitment to tackling inflation and getting it down. Hunter, in charge of economic forecasting, thinks that **higher oil prices will become more embedded into supply chains.** Last week, RBA Hauser warned for a materially worse inflation outlook. Q3 Australian inflation numbers are due Wednesday with consensus expecting an acceleration. RBA governor Bullock testifies before parliament the same day. **The combo can seal the deal on the outcome of the November meeting** with Australian money markets currently attaching a 60% probability to a 25 bps rate hike to 4.85%. That would lift the RBA policy rate above the post-Covid peak of 4.6% (current level).

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. The real rate normalisation lifted the German 10-yr yield to its highest level since 2009. **Surging energy prices are now balanced against higher sovereign EMU credit risk premia.** They help cap the strong rising interest rate trend for now.



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 rising **real rates.** Questions around AI-valuations/financing triggered an equity market correction with **safe haven flows pulling US yields off their multi-annual highs.**



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

Monday, 26 October		Consensus	Previous
US			
13:30	Chicago Fed Nat Activity Index (Sep)	-0.1	-0.04
15:30	Dallas Fed Manf. Activity (Oct)	8.8	9.8
UK			
12:00	CBI Total Dist. Reported Sales (Oct)	--	-36
12:00	CBI Retailing Reported Sales (Oct)	-48	-55
Germany			
10:00	IFO Business Climate (Oct)	89.9	89.9
10:00	IFO Current Assessment (Oct)	89.9	89.5
10:00	IFO Expectations (Oct)	90.0	90.4
Spain			
09:00	PPI MoM/YoY (Sep)	--/--	2.90%
Sweden			
08:00	PPI MoM/YoY (Sep)	--/--	0.90%
Events			
11:30	EU to Sell Bonds		
12:00	Belgium to Sell Bonds		
19:00	U.S. To Sell USD69 Bln 2-Year Notes		

10-year	Close	-1d
US	4,99	0,04
DE	3,35	0,01
BE	4,43	-0,02
UK	5,36	0,03
JP	2,79	-0,02

2-year	Close	-1d
US	4,68	0,04
DE	3,06	0,03
BE	3,33	0,01
UK	4,91	0,02
JP	1,89	0,00

Stocks	Close	-1d
DOW	52215,16	-652,82
NASDAQ	25955,34	-53,52
NIKKEI	62189,65	-503,51
DAX	25181,65	-190,10
DJ euro-50	6068,22	-18,79

IRS	EUR	USD	GBP
3y	3,42	4,54	4,77
5y	3,41	4,52	4,78
10y	3,46	4,60	4,90

EUR	-1d	-2d
€STR	2,4420	0,0000
Euribor-1	2,4540	0,0130
Euribor-3	2,6660	-0,0110
Euribor-6	3,0120	-0,0070

USD	-1d	-2d
SOFR-1	3,9286	0,0057
SOFR-3	4,0459	0,0063
SOFR-6	4,1819	0,0097

Currencies	Close	-1d
EUR/USD	1,1202	-0,0014
USD/JPY	156,87	0,10
GBP/USD	1,3374	-0,0027
AUD/USD	0,7036	0,0016
USD/CAD	1,4003	-0,0007

Currencies	Close	-1d
EUR/JPY	175,72	-0,12
EUR/GBP	0,8379	0,0009
EUR/CHF	0,9238	0,0037
EUR/SEK	11,1255	0,0089
EUR/NOK	10,4475	-0,0219

Commodities	Close	-1d
CRB	418,60	3,62
Gold	4007,90	-52,50
Brent	116,72	3,55

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