



Tuesday, 02 December 2025

KBC Sunrise Market Commentary

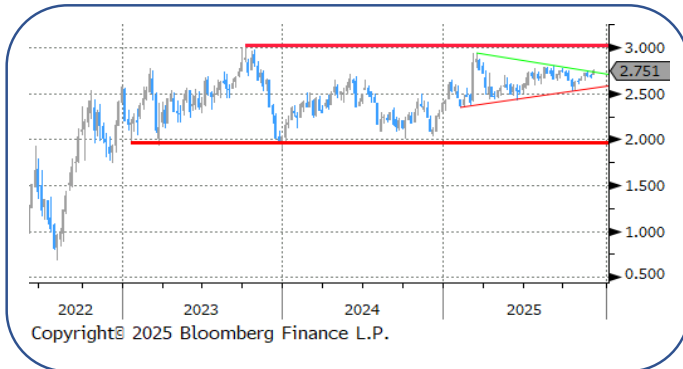
Markets

- Bonds suffered in a global bear steepening move yesterday.** Bank of Japan's Ueda was widely considered to have started the fire by giving a clear nod towards a December rate hike. At 0.75% (from 0.5% today), Ueda added, the BoJ would also indicate how far the normalization cycle could go. And by comparing another hike by lifting the foot of the accelerator rather than hitting the brakes, markets soon concluded that December wouldn't be the final move, considering that inflation remains well above the 2% target. **Japanese yields rose with the 2-yr yield topping 1%** for the first time since 2008 and long(er) tenors either testing or hitting new (record) highs. Japanese yields are looking ever more attractive and increasingly offer an alternative to higher-yielding assets such as Treasuries. Along with the expected heavy corporate issuance this week (and month) it helps explain core bonds losing ground yesterday. US rates rallied between 4 bps (2-yr) to 7.3 bps (30-yr). **The US money market** segment (<1 year) grabs some attention with interbank rates such as the SOFR being fixed (on Friday) **at rates well above the Fed's upper bound target** (4%). US banks yesterday at the same time drew a substantial amount from the Fed's repo facility (\$26 bln), indicating some kind of funding pressures going into the new month. German yields added 3.5-6.2 bps. The 10-yr European swap rate ended at a 1.5 year high, the 30-yr at a 2-yr (+) high. The Japanese yen unsurprisingly outperformed on FX markets but finished off the intraday highs. USD/JPY dropped as low as 154.67 before recovering to 155.46 into the close. The euro lost most of its upper hand against the USD when US investors began to join. EUR/USD pared earlier gains to 1.165 to around 1.161. Sterling slid to EUR/GBP 0.8786.
- We're keen to find out how yesterday's opening moves to the week play out further. A solid 10-yr Japanese bond auction this morning for now eases the sell-off with Treasuries and Bunds standing too. Asian stock markets trade mixed, offering little guidance for the European open later (futures flat). The underlying market dynamics in any case won't be derailed by the economic calendar. Based on last week's national releases, **European inflation figures** should more or less match the bar set at -0.3% m/m and 2.1% y/y for headline CPI. Core inflation is expected at 2.4%. Implications for the ECB are close to zero: president Lagarde just last week reiterated the current 2% is the correct level to have in place. Yesterday's US manufacturing ISM barely made a dent in markets. It further slipped into contraction territory (48.2 from 48.7) with new orders and employment details unconvincing either. But markets are more interested in tomorrow's services edition as well as other releases including the ADP job report and PCE deflators. The OECD's new economic outlook is worth mentioning too.

News & Views

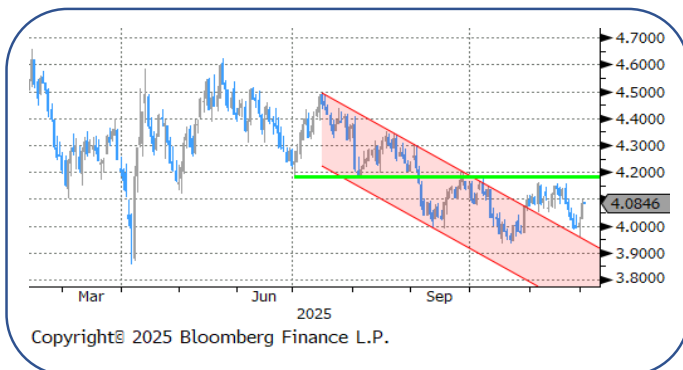
- The British Retail Consortium's (BRC) shop price index showed prices falling for a second consecutive month.** Overall prices fell by 0.1% M/M **with lower food prices (-0.3% M/M) again responsible** for the setback. Non-food prices were stable compared with October. On an annual level, it's still the other way around. The overall 0.6% Y/Y increase (down from 1% in October) is due to higher food prices compared to November 2024 (+3% Y/Y vs +3.7% in October; slowest pace since May 2025). Non-food price deflation went from -0.4% Y/Y to -0.6%. BRC CEO Dickinson said that **retailers are hoping that consumer confidence rebounds in this crucial trading period** with Budget uncertainty behind us. After kicking off Black Friday deals earlier than expected, they will continue doing everything to keep prices down going into Christmas. **2026 looks less bright** with headwinds including rising employment costs and consequences for both prices and consumer confidence.
- Multiple officials confirmed that the ECB won't provide a backstop for a €140bn loan** (against frozen Russian central bank assets) **to cover Ukraine's 2026-2027 financing needs.** The ECB concluded that the European Commission proposal violated its mandate (prohibiting monetary financing). The EC wanted EU countries to provide state guarantees to ensure the repayment risk of the loan is shared. The ECB would have a role as a lender of last resort to Euroclear bank to mitigate any liquidity risk. **The EC is now looking for other solutions, but almost all of them include (a way of) joint EU debt issuance.**

Graphs



GE 10y yield

Confidence that inflation is returning to 2% **allowed the ECB to reduce its policy rate to 2%, reaching neutral territory**. The ECB considers it to be in a good place to respond to potential shocks. **German bunds meanwhile ever more gain safe haven status** as uncertainty with respect to US assets lingers. The theme interferes from time to time with a structural public finance-driven rise in LT yields.



US 10y yield

The Fed's **focus shifted with increased attention for (risks to) the labour market** with 25 bps rate cuts in September & October. December is a coin toss. QT will end in December but proceeds from maturing bonds are skewed to Tbills, in theory supporting a further curve steepening even as the budgetary impact of **President Trump's big, beautiful bill moved to the background**. 4% support in the 10-y yield survives for now.



EUR/USD

Trump's explosive policy mix triggered uncertainty on future US economic growth and sustainability of public finances with **markets showing a loss of confidence in the dollar**. **The Fed restarting its easing cycle will reduce USD interest rate support** while Lecornu's survival took the sting out of the French political impasse in the short run. The end to the ECB's easing cycle and German/European spending plans help the euro-part of the equation MT.



EUR/GBP

Sterling snapped through multiple support zones, pushing EUR/GBP to its highest levels since early 2023. The close 5-4 unchanged vote at the November BoE meeting suggests a next step in December is likely given data weakness. A new sell-off was avoided after Chancellor Reeves' November's Autumn Budget, but we stick to our view that EUR/GBP will return towards the 0.90 handle.

Calendar & Table

Tuesday, 02 December		Consensus	Previous
Japan			
00:50	Monetary Base YoY (Nov)	--	-7.80%
06:00	Consumer Confidence Index (Nov)	36.2	35.8
UK			
01:01	BRC Shop Price Index YoY (Nov)	0.60%A	1.00%
08:00	Nationwide House PX MoM/NSA YoY (Nov)	-0.10%/1.60%	0.30%/2.40%
EMU			
11:00	Unemployment Rate (Oct)	6.30%	6.30%
11:00	CPI MoM/YoY (Nov P)	-0.30%/2.10%	0.20%/2.10%
11:00	CPI Core YoY (Nov P)	2.40%	2.40%
Italy			
10:00	Unemployment Rate (Oct)	6.10%	6.10%
12:00	PPI MoM/YoY (Oct)	--/--	0.20%/1.50%
Belgium			
11:00	Unemployment Rate (Oct)	--	5.90%
Events			
02DEC	OECD releases economic outlook		
02:00	Fed's Powell Speaks at Memorial Event		
04:35	Japan to Sell 10-Year Bonds		
11:30	Germany to Sell Bonds		
14:00	ECB's Dolenc Speaks in Ljubljana		
16:00	Fed's Bowman Testifies Before House Committee		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,09	0,07		US	3,53	0,04	DOW	47289,33	-427,09
DE	2,75	0,06		DE	2,06	0,04	NASDAQ	23275,92	-89,77
BE	3,26	0,07		BE	2,13	0,04	NIKKEI	49303,45	0,17
UK	4,48	0,04		UK	3,75	0,01	DAX	23589,44	-247,35
JP	1,86	-0,01		JP	1,02	-0,01	DJ euro-50	5667,48	-0,69
IRS	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	EUR	<u>-1d</u>	<u>-2d</u>	USD	<u>-1d</u>	<u>-2d</u>
3y	2,28	3,29	3,54	€STR	1,9300	0,0050			
5y	2,45	3,37	3,65	Euribor-1	1,9610	0,0150	SOFR-1	3,8550	-0,0170
10y	2,80	3,68	4,00	Euribor-3	2,0600	0,0000	SOFR-3	3,7745	-0,0040
				Euribor-6	2,1230	0,0130	SOFR-6	3,6998	0,0028
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1610	0,0012		EUR/JPY	180,49	-0,67	CRB	302,74	1,25
USD/JPY	155,46	-0,72		EUR/GBP	0,8786	0,0022	Gold	4274,80	19,90
GBP/USD	1,3213	-0,0022		EUR/CHF	0,9343	0,0021	Brent	63,17	0,79
AUD/USD	0,6544	-0,0006		EUR/SEK	10,9734	0,0144			
USD/CAD	1,3999	0,0022		EUR/NOK	11,7641	0,0151			

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