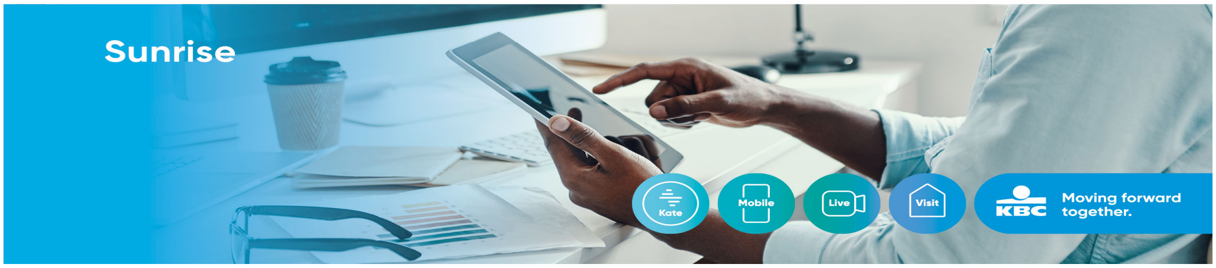

Monday, 08 December 2025

KBC Sunrise Market Commentary

Markets

- **The link between intraday price developments and data/eco headlines on Fridy was again thin.** Both for US and EMU yields **'north' still was the by default market choice.** EMU eco data mostly were tier. US data were outdated (September spending and income data annex price deflators) or mixed (U. of Michigan consumer confidence, assessment on future development better than expected, but with easing inflation expectations). It didn't provide any clear guidance as markets were counting down to Wednesday's Fed policy decision. **US yields closed the session 3.7-3.9 bps higher across the curve.** It pushed yields again further off recent support levels. The 2-y yield (3.56%) holding in the middle of the 3.45/3.65 range suggests **some rather neutral positioning going into the Fed decision.** Despite expectations for further Fed easing, longer maturities in the US recently didn't escape the trend of higher LT risk premia globally. EMU (swap) yields similarly added 3-4+ bps. The spread of France (against Bunds) eased slightly (-3 bpn) as Parliament took a small step in the way to reach a budget agreement by approving the income part of the social security budget. Without providing a clear driver for FX trading though. EUR/USD closed the session little changed near 1.164. Idem for DXY (close near 99). Equities in the US and European both closed with limited gains. (S&P 500 +0.19%).

- At the start of the week, **markets are still mainly looking forward to Wednesday's Fed meeting.** The **Bank of Canada** and the **National Bank of Brazil** decide on policy at the same day (both expected unchanged). The Swiss national bank policy announcement is on Friday. The Fed is widely expected to continue with a next precautionary 25 bps rate cut to balance against the risk of further labour market weakness as policy is still mildly restrictive. Looking forward, just as is the case for markets, FOMC members didn't receive much hard data evidence to change their highly divided dots guidance. A new 'hawkish' rate cut in this respect shouldn't be a surprise for markets. Real guidance whether there is already room for additional easing early next year will have to come for the labour market and CPI updates that will be released in the two weeks after the Fed decision. We see downside risks, but probably its too early for the market to already anticipate on such a scenario this week. **On the EMU side of the equation, ECB's Schabel at least didn't make any efforts to arrest recent rebound in EMU yields** as she indicated she is comfortable with the markets positioning that the next ECB move will be a rate increase. EMU yields and the euro are again heading north this morning. At 1.1664, EUR/USD is nearing last week's top off 1.1682,with next minor resistance at 1.1728 (Oct 17 top). However, a sustained break probably isn't evident until markets have made up their mind on the timing of the post-December Fed trajectory.

News & Views

- **Fitch kept Hungary's BBB credit rating but cut the outlook to negative from stable.** The outlook's revision resulted from a **significant worsening in public finances that reflected measures taken into the 2026 parliamentary elections.** It forecasts the deficit to widen from 5% this year to 5.6% in 2026, well above the June projections, and does not rule out further "ad-hoc fiscal easing measures in early 2026". Debt would rise to 74.6% of GDP by end-2027 from 73.5% in 2024. Fitch noted Hungary's strong structural indicators relative to peers (including GDP per capita) that warrant its BBB rating are balanced amongst others against high public debt, unorthodox economic policies, high exposure to external shocks including potential supply disruptions in Russian energy. **Economic growth** is expected to have flatlined on average in 2023-2025 with a pickup seen next year (2.3%). **Inflation** of 4.5%-3.5%-4.4% implies (risks of) the central bank overshooting its target. Fitch anticipates the policy rate at 6% from 6.5% currently by end-2026.

- **S&P Global UK's November report on jobs indicated a further downturn in recruitment activity.** Permanent placements fell again, although at an easier rate for a fifth consecutive month. Temp billings were down modestly. Permanent salaries increased but with staff availability rising steeply and competition for positions fierce, it was at a historically subdued degree. **The survey takers noted the environment remains a complex one**, adding that pre-Budget nerves had knocked temporary recruitment back after growing in October. The absence of big tax hikes was a relief, they said, but is unlikely to jumpstart a labour market that does show signs of stabilizing.

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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

Monday, 8 December		Consensus	Previous
US			
17:00	NY Fed 1-Yr Inflation Expectations (Nov)	--	3.24%
Japan			
00:30	Real Cash Earnings YoY (Oct)	-0.70%A	-1.30%R
00:30	Scheduled Full-Time Pay Same Base YoY (Oct)	2.20%A	2.30%R
00:30	Labor Cash Earnings YoY (Oct)	2.60%A	2.10%R
00:30	Cash Earnings Same Sample Base YoY (Oct)	2.40%A	2.50%R
00:50	Trade Balance BoP Basis (Oct)	¥98.3bA	¥236.0b
00:50	BoP Current Account Adjusted (Oct)	¥2476.4bA	¥4347.6b
00:50	Bank Lending Ex-Trusts YoY (Nov)	4.20%A	4.50%
06:00	Eco Watchers Survey Current SA (Nov)	48.7A	49.1
06:00	Eco Watchers Survey Outlook SA (Nov)	50.3A	53.1
EMU			
10:30	Sentix Investor Confidence (Dec)	-6.3	-7.4
Germany			
08:00	Industrial Production SA MoM/WDA YoY (Oct)	0.30%/-0.40%	1.30%/-1.00%
China			
08DEC	Exports YoY (Nov)	5.90%A	-1.10%
08DEC	Imports YoY (Nov)	1.90%A	1.00%
08DEC	Trade Balance (Nov)	$111.68bA	$90.07b
Events			
01:01	S&P Global. KPMG and REC UK Report on Jobs		
04:35	Japan to Sell 5-Year Bonds		
16:00	ECB's Cipollone Speaks in Frankfurt		
18:00	ECB's Villeroy Speaks in Paris		
18:00	BOE's Taylor Speaks		
19:00	U.S. To Sell USD58 Bln 3-Year Notes		
19:30	BOE's Lombardelli Speaks		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,14	0,04		US	3,56	0,04	DOW	47954,99	104,05
DE	2,80	0,03		DE	2,10	0,02	NASDAQ	23578,13	72,99
BE	3,30	0,02		BE	2,16	0,02	NIKKEI	50581,94	90,07
UK	4,48	0,04		UK	3,78	0,04	DAX	24028,14	146,11
JP	1,97	0,03		JP	1,07	0,02	DJ euro-50	5723,93	5,85
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,33	3,34	3,57	€STR	1,9290	0,0000			
5y	2,51	3,42	3,67	Euribor-1	1,9110	-0,0010	SOFR-1	3,8060	-0,0034
10y	2,84	3,73	4,00	Euribor-3	2,0750	0,0200	SOFR-3	3,7473	0,0042
				Euribor-6	2,1470	0,0210	SOFR-6	3,6795	0,0092
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1642	-0,0002		EUR/JPY	180,82	0,21	CRB	305,97	2,05
USD/JPY	155,33	0,23		EUR/GBP	0,8733	-0,0004	Gold	4243,00	0,00
GBP/USD	1,3328	0,0001		EUR/CHF	0,9368	0,0010	Brent	63,75	0,49
AUD/USD	0,664	0,0030		EUR/SEK	10,9463	-0,0274			
USD/CAD	1,3817	-0,0141		EUR/NOK	11,7645	-0,0088			

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