



Wednesday, 10 December 2025

KBC Sunrise Market Commentary

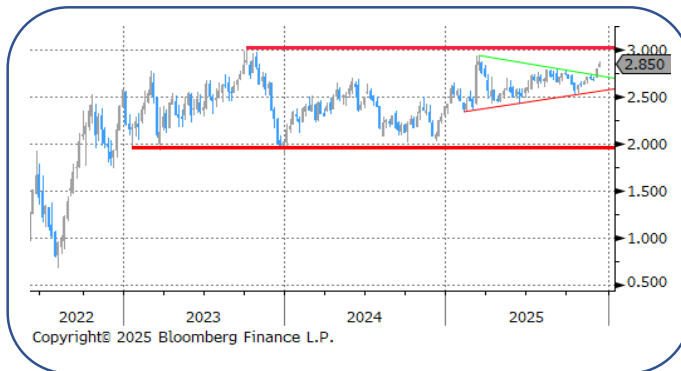
Markets

- Monday's **ECB Schnabel driven rally in EMU yields ran into resistance yesterday**. Investors in some way embraced her message that the next ECB move, after a period of rate stability, will likely be a rate hike. **EMU money markets** priced out the probability of a final fine-tuning/risk management cut next year and at the same time raise chances of higher rates from the turn of 2026/27 on. US **markets are preparing for another 'hawkish' rate cut today** despite ongoing pressure for the government to ease policy in a more aggressive way. Visibility on upcoming data-guidance remains low but yesterday's **rise in yields after better than expected JOLTS job openings data only illustrated market sensitivity to the topic**. US yields added between 4 bps (2 & 5-y) and 0.6 bps (30-y). US yields are close to the top of the post-summer sideways technical trading ranges. A \$39bn 10-y US Treasury auction delivered 'neutral' bidding metrics and had little impact. Equity markets took a pause with record levels back within reach. Changes in the intraday interest rate dynamics between the dollar and other currencies, including the euro, again lacked directional impact. DXY (close 99.22 from 99.08) gained marginally, mainly driven by a rebound in USD/JPY (close 156.9). EUR/USD softened slightly (close EUR/USD 1.1627). French Parliament yesterday approved the social security bill, removing an hurdle to get budget approved as soon as next week, but more likely early 2026. For now this French 'muddling through' scenario doesn't help the euro.
- The Bank of Canada (expected unchanged at 2.25%) and the Banco Nacional do Brasil (expected unchanged at 15%) join the Fed in deciding on monetary policy today. **The Fed is expected to proceed with another precautionary 25 bps rate cut (to 3.5%-3.75%) despite a highly divided MPC**. Markets will keep a close eye at the new Summary of Economic Projections (dots) and any guidance from Fed Chair Powell. **However, news from those sources will probably be highly conditional**. Governors since the September forecast had little hard evidence on the labour market and even less on inflation to make substantial changes. One can expect the Fed chair to shift to an outright data-dependent narrative as the policy rate is coming closer to neutral. **This puts the focus on data updates between now and Christmas** (payrolls, CPI and Q3 GDP). With yields having rebounded/priced out more aggressive easing, there might again be room for some correction in case of softer data. However, question is whether today's FOMC meeting will already allow for such a reaction. **On FX, DXY and EUR/USD show little directional momentum**. On the euro side of the equation, uncertainty on France and maybe even more on the outcome of negotiations to end the war in Ukraine are a drag for further euro gains.

News & Views

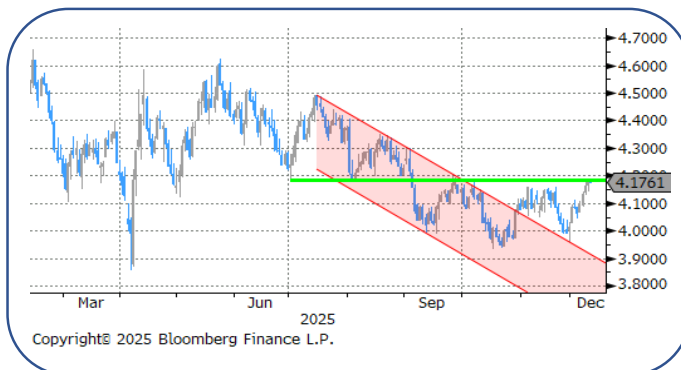
- Chinese inflation rebounded to 0.7% y/y from 0.2%**, the quickest pace since February of last year. Food prices were partly responsible for the uptick, rising for the first time since January. **Non-food inflation slipped to 0.8%. Filtering for both food and energy prices, core inflation ended a six-month acceleration streak to come in unchanged at 1.2%**. Other elements supporting the inflation rebound were surging gold jewelry prices (+58.4% y/y) which lifted the category "miscellaneous goods and services" to 14.2% y/y. **Services prices increased at a slower rate compared to October (0.7%)**, the first slowing since February. The above combined with producer prices unexpectedly showing steeper drops (-2.2% from -2.1% vs -2% expected) means **the CPI rebound isn't a solid sign of deflation risks structurally easing**. The Chinese yuan gapped lower at the open this morning but meanwhile swapped losses into gains around USD/CNY 7.06, a more than one year CNY high.
- BoE policymakers in yesterday's parliamentary hearing largely stuck to their personal and mixed views on whether or not it is appropriate to further lower policy rates**. One of them, however, offered **a glimpse on the BoE's judgement of the November budget**. Deputy governor Lombardelli said it would lower the annual inflation rate by 0.4-0.5 ppts from 2026Q2 while lifting GDP slightly by 0.2 ppts in 2027. The budget together with inflation coming off again were seen as paving the way for a December rate cut. Lombardelli suggested, however, the BoE could look through the one-off impact on inflation from the government measures but added that the **latter may help bring down elevated household inflation expectations**. It will probably once again be BoE governor Bailey having the swing vote in next week's policy decision.

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 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

Wednesday, 10 December		Consensus	Previous
US			
14:30	Employment Cost Index (3Q)	0.90%	0.90%
20:00	FOMC Rate Decision	3.50%/3.75%	3.75%/4.00%
20:00	Fed Interest on Reserve Balances Rate	3.65%	3.90%
20:00	Fed Reverse Repo Rate	—	3.75%
20:00	FOMC Median Rate Forecast: Current Yr	3.625%	3.625%
20:00	FOMC Median Rate Forecast: Next Yr	3.375%	3.375%
20:00	FOMC Median Rate Forecast: +2 Yrs	3.125%	3.125%
20:00	FOMC Median Rate Forecast: +3 Yrs	3.125%	3.125%
20:00	FOMC Median Rate Forecast: Long-Run	3.125%	3.00%
Canada			
15:45	Bank of Canada Rate Decision	2.25%	2.25%
Japan			
00:50	PPI MoM/YoY (Nov)	0.30%/2.70%	0.50%/2.70%
Italy			
10:00	Industrial Production MoM/WDA YoY (Oct)	-0.20%/0.30%	2.80%/1.50%
China			
02:30	PPI YoY (Nov)	-2.20%A	-2.10%
02:30	CPI YoY (Nov)	0.70%A	0.20%
Norway			
08:00	CPI MoM/YoY (Nov)	-0.10%/2.70%	0.10%/3.10%
08:00	CPI Underlying MoM/YoY (Nov)	-0.20%/3.10%	0.60%/3.40%
Sweden			
08:00	GDP Indicator SA MoM/WDA YoY (Oct)	-0.10%/—	-0.10%/2.70%
08:00	Private Sector Production MoM/YoY (Oct)	—/—	0.90%/4.70%
08:00	Industry Production Value YoY (Oct)	—	13.50%
08:00	Service Production Value YoY (Oct)	—	1.90%
08:00	Industrial Orders MoM/NSA YoY (Oct)	—/—	-2.60%/7.20%
08:00	Household Consumption YoY (Oct)	—	3.30%
Events			
10DEC	UK Chancellor Rachel Reeves appears before the Treasury Select Committee		
11:55	ECB's Lagarde Speaks London		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,19	0,02		US	3,61	0,04	DOW	47560,29	-179,03
DE	2,85	-0,01		DE	2,15	0,00	NASDAQ	23576,49	30,59
BE	3,34	-0,02		BE	2,21	0,00	NIKKEI	50602,8	-52,30
UK	4,51	-0,02		UK	3,79	-0,03	DAX	24162,65	116,64
JP	1,96	0,00		JP	1,07	0,00	DJ euro-50	5718,32	-7,27
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,41	3,42	3,61	€STR	1,9290	-0,0010			
5y	2,58	3,50	3,71	Euribor-1	1,9150	0,0110	SOFR-1	3,7845	-0,0112
10y	2,90	3,78	4,03	Euribor-3	2,0880	0,0190	SOFR-3	3,7400	-0,0038
				Euribor-6	2,1680	0,0180	SOFR-6	3,6906	0,0130
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1627	-0,0010		EUR/JPY	182,4	0,94	CRB	299,63	-1,85
USD/JPY	156,88	0,96		EUR/GBP	0,8743	0,0007	Gold	4236,20	18,50
GBP/USD	1,3297	-0,0025		EUR/CHF	0,9374	-0,0014	Brent	61,94	-0,55
AUD/USD	0,6642	0,0018		EUR/SEK	10,8892	-0,0535			
USD/CAD	1,3846	-0,0011		EUR/NOK	11,8055	0,0159			

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