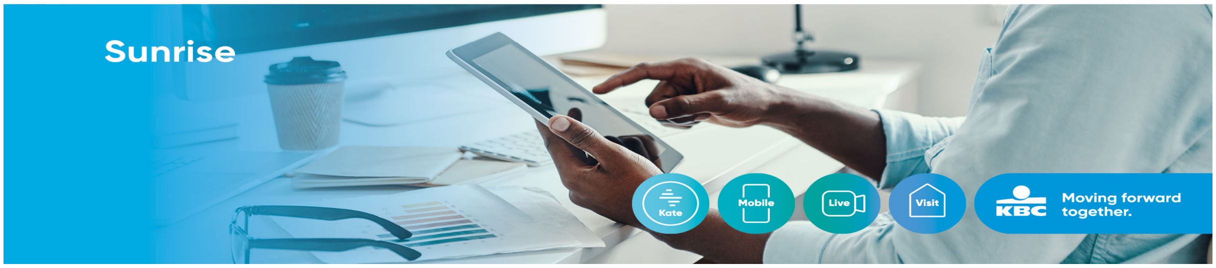


Thursday, 11 December 2025

KBC Sunrise Market Commentary

Markets

- The **Fed cut its policy rate for the third consecutive meeting by 25 bps yesterday to 3.5%-3.75%.** The Fed still has to **balance a weakening labour market against somewhat elevated inflation.** There was again no consensus within the FOMC on how to address these opposing factors, as one member (Stephen Miran) voted for a 50 bps cut, but two others (Schmid and Goolsbee) wanted to keep the policy rate unchanged. The dots even showed a total of 6 out of 19 members in favour of the status quo. The **median Federal Funds Rate projection for 2026 and 2027 remained unchanged at respectively 3.25%-3.5% and 3%-3.25%.** Fed chair Powell indicated that the policy rate now is ***"within the range of plausible neutral estimates",*** allowing the Fed to assess incoming data, with a January rate cut seen as rather unlikely**. However, part of Powell's analysis allowed the market to consider a less hawkish interpretation.** PCE inflation forecasts for this (2.9% from 3%) and next (2.4% from 2.6%) faced downward revisions. Powell's working hypothesis is still that most of the current elevated inflation was temporary due to higher goods prices driven by tariffs. Services inflation has been cooling. In addition**, the Fed chair pointed at ongoing downside risks to the labour market, especially as current estimates on employment growth probably present an over-estimation**. **Markets responded to the "dovish" opening** created by the labour market remarks. The US curve bull steepened, with yields declining between 7.7 bps (2-y) and -2.1 bps (30-y), assuming that the Fed focus remains slightly more tilted to maximum employment part of its dual mandate. An additional announcement to start buying T-bills (and other short-term Treasury securities) from next week on at a $40bn pace to maintain a situation of ample reserves added to the bull steepening move. By nearing neutral interest rate levels, the bar for additional rate cuts in early 2026 has been raised. Nevertheless, **in case of weak (labour) market data next week and/or January, the debate on an additional precautionary rate cut might rapidly resurface.** On other markets, equities rebounded yesterday with the Fed upwardly revising its growth forecasts, especially for next year (2.3% from 1.8% in September) and the Fed chair elaborating on ongoing high productivity gains supported. The combination of losing interest rate support and a risk rebound weighed on the dollar. DXY eased further from the 99.2 area early in the session to close at 98.79. EUR/USD closed just below the 1.17 big figure (1.1695).

- Today's eco calendar is thin, apart from weekly jobless claims. The Swiss national bank is expected to keep its policy rate unchanged at 0%. Even as Powell indicated that the Fed is now in a position to wait, we assume that both US yields and the dollar remain more sensitive to weaker than expected (labour market) data.

News & Views

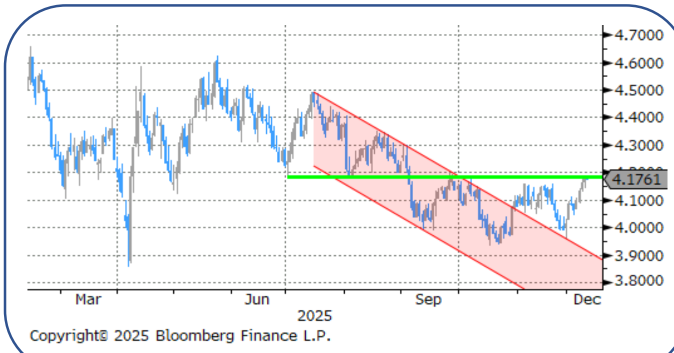
- **The Bank of Canada as expected kept the policy rate unchanged at 2.5%**. Economic growth at a 2.6% annualized clip in Q2 was surprisingly strong, it said, but that was the result of a steep drop in imports. The BoC anticipates a weak Q4 number with the import normalizing hanging in the balance with a grow in domestic demand. Growth is forecast to pick up in 2026, although uncertainty remains high. The labour market is a similar "on the one hand, but on the other" narrative. after solid employment gains over the last three months. Inflation, 2.2% in October, should remain close to the 2% target with the BoC willing to look through some choppiness in the coming months. Underlying gauges hover around 2.5%. **The central bank concludes that "the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment."** Canadian swap yields fell up to 5 bps at the front. USD/CAD ended lower below 1.38 but that was mainly a US dollar move.

- **Brazil's central bank left the policy rate at 15% and kept their view of an economy cooling while inflation, though still above the 3% target, is improving.** They lowered CPI forecasts to hit 3.2% in 2027Q2 (from 3.3%), which is their relevant policy horizon for now. Risks remain symmetrical. The 15% level is considered "appropriate" to bring inflation to target, considered a slight dovish change compared to November's "will be enough". The Brazilian real's strengthening over much of 2025 probably helps explain the downwardly adjusted CPI forecasts. But its recent weakening to a two month low of USD/BRL 5.47 warrants ongoing caution, meaning the 15% level may be the reference for the time being..

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. Recent comments ever more indicate that the next ECB move will be a rate hike. Combined with ongoing higher (fiscal) risk premia, this supported a rebound in EMU 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 and December. The Fed now nears a neutral policy level, but the debate on further easing isn't finished yet. Some further steepening still might be on the cards 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

Thursday, 11 December		Consensus	Previous
US			
14:30	Initial Jobless Claims	220k	191k
14:30	Continuing Claims	1938k	1939k
14:30	Trade Balance (Sep)	-$63.1b	-$59.6b
14:30	Exports/Imports MoM (Sep)	--/--	0.10%/-5.10%
Japan			
00:50	BSI Large All Industry QoQ (4Q)	4.9A	4.7
00:50	BSI Large Manufacturing QoQ (4Q)	4.7A	3.8
UK			
01:01	RICS House Price Balance (Nov)	-16%A	-19.00%
Switzerland			
09:30	SNB Policy Rate	0.00%	0.00%
Events			
10:00	SNB's Schlegel Speaks After Rate Decision		
10:30	Spain to Sell Bonds		
10:50	BOE Governor Bailey Speaks		
11:00	Italy to Sell Bonds		
19:00	U.S. To Sell USD22 Bln 30-Year Bond Reopening		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,15	-0,04		US	3,54	-0,08	DOW	48057,75	497,46
DE	2,85	0,00		DE	2,18	0,02	NASDAQ	23654,15	77,66
BE	3,35	0,01		BE	2,22	0,02	NIKKEI	50148,82	-453,98
UK	4,51	0,00		UK	3,79	0,00	DAX	24130,14	-32,51
JP	1,93	-0,03		JP	1,06	-0,02	DJ euro-50	5708,12	-10,20
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,42	3,37	3,62	€STR	1,9290	0,0000			
5y	2,59	3,46	3,73	Euribor-1	1,9060	-0,0090	SOFR-1	3,7559	-0,0286
10y	2,90	3,75	4,04	Euribor-3	2,0820	-0,0060	SOFR-3	3,7193	-0,0206
				Euribor-6	2,1650	-0,0030	SOFR-6	3,6560	-0,0346
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1695	0,0068		EUR/JPY	182,44	0,04	CRB	301,38	1,75
USD/JPY	156,02	-0,86		EUR/GBP	0,8739	-0,0004	Gold	4224,70	-11,50
GBP/USD	1,3383	0,0086		EUR/CHF	0,9356	-0,0018	Brent	62,21	0,27
AUD/USD	0,6676	0,0034		EUR/SEK	10,8385	-0,0507			
USD/CAD	1,3793	-0,0053		EUR/NOK	11,7973	-0,0082			

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