



Friday, 12 December 2025

KBC Sunrise Market Commentary

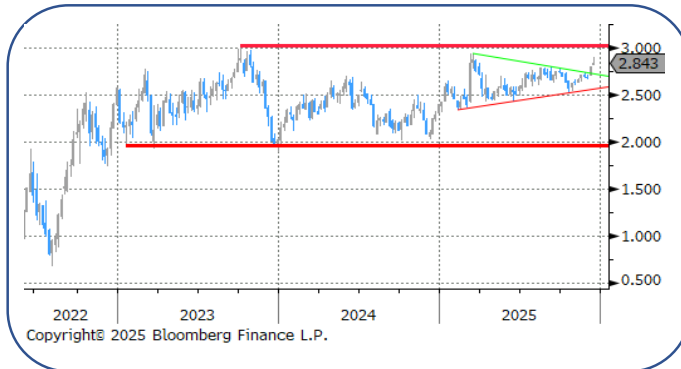
Markets

- (US) **markets yesterday continued the constructive reaction after Wednesday Fed policy meeting.** (The pace of) any further easing has become highly dependent on US data update starting next week and continuing in January. Even as Fed Chair Powell indicated that a follow-up rate cut in January isn't evident, **markets still keep the option open that some more precautionary easing is still might come relatively soon in case of softer labour market data.** Early in US dealings, yields extended Wednesday's decline. A jump in weekly jobless (from an extremely low of 192k to an very high 236k) was probably too much distorted due to Thanksgiving to provide any additional insight on the status of the US labour market. The US yield-decline slowed as the session proceeded and even reversed. US yield finished the day marginally higher (2-y +0.2 bp; 30-y +1.3 bp). A \$ 22 bln 30-y Treasury auction went 'neutral' and had little impact on trading. **EMU yields entered a consolidation modus after recent rise.** Markets after recent positive ECB comments on growth have now fully embraced the scenario that the ECB is done with its easing cycle. The debate on the timing of a potential first hike (turn of 2026/2027?) has started. Next weeks EMU PMI's and the new growth forecasts in December ECB staff projections in this respect are next potential input for EMU interest rate markets to shape their view/expectations. **(US) equity markets** (except for the Nasdaq) **closed near (S&P 500) or even at record levels** (Dow Jones +1.34%). The (productivity driven) growth upgrade in the Fed dots probably still was a supportive factor. The EuroStoxx 50 also added 0.8% and is only about 1% away from the mid-November top. The mild US interest rate markets, a risk-on sentiment and the likes of the ECB or the BOJ moving in a different direction compared to the Fed, **finally pushed the dollar below some first minor support levels.** DXY closed at 98.35. EUR/USD regained the 1.17 big figure (close 1.1738). USD/JPY eased to 155.6, but the yen underperformed the euro, with EUR/JPY still setting minor now all-time highs (currently 182.8).
- Risk sentiment in Asia remains constructive this morning, with indices often showing gains of 1%+. The **eco calendar in the US and EMU is almost empty.** We keep an **eye at the first comments from individual Fed members in the wake of this week's meeting.** Today Fed's Paulson, Fed's Hammack and Fed Goolsbee (additional dissenter at this week's decision) are scheduled to speak. Even after Fed Powell's cautious guidance on the room for further easing, we still err to the side that US yields and the dollar stay vulnerable to softer than expected US activity data. This morning, **UK October monthly GDP** (-0.1% M/M) and other activity data (Industrial production +1.1% M/M, but services activity -0.3%) were little inspiring. Sterling (and UK gilts) got some reprieve after the release of the UK budget end last month, but **a (technical insignificant) rebound of sterling (against the euro) this week ran into resistance in the EUR/GBP 0.872 area.** Ongoing weak data and the prospect of further BoE easing probably might keep sterling in the defensive. EUR/GBP gains marginally further this morning (0.877).

News & Views

- Bulgarian prime minister Zhelyazkov resigned** yesterday after being in office for less than a year. Zhelyazkov's minority government's proposed 2026 budget which included tax rises and increased spending sparked widespread anti-corruption protests. While the budget was eventually withdrawn, the protests continued. Parliament was due to hold a vote of confidence, the sixth one since being in power, just minutes before Zhelyazkov's announcement. The leader of the ruling GERB party now has a chance to appoint a new premier, but already signaled that he won't. It's then up to the second-largest faction to give it a shot but that's unlikely to so succeed in gathering enough support. **Instead new elections are the most plausible outcome.** That would be the eighth over the past four years. The political chaos doesn't thwart Bulgaria's approved and planned accession to the euro zone on January 1.
- The Fed has reappointed all but one (Bostic, due to early retirement next year) of the 12 regional branches for new five-year terms starting March 1.** The decision was made unanimous. The process usually gets little attention but this time around was different. The reappointment needs approval from the Board of Governors, which US president Trump had been trying to get a majority in with hand-picked candidates. That could in theory have blocked and steered the reappointment process in favour of candidates that are more Trump-minded. The NY regional chief has a permanent vote on monetary policy while of the remaining 11, four receive annually alternating voting seats.

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

Friday, 12 December		Consensus	Previous
Canada			
14:30	Building Permits MoM (Oct)	--	4.50%
UK			
08:00	Monthly GDP MoM/3M-3M (Oct)	0.10%/0.00%	-0.10%/0.30%
08:00	Industrial Production MoM/YoY (Oct)	1.00%/-1.20%	-2.00%/-2.50%
08:00	Manufacturing Production MoM/YoY (Oct)	1.10%/-0.20%	-1.70%/-2.20%
08:00	Index of Services MoM/3M-3M (Oct)	0.00%/0.10%	0.20%/0.20%
08:00	Construction Output MoM/YoY (Oct)	-0.10%/1.50%	0.20%/1.30%
08:00	Trade Balance GBP/Mn (Oct)	-£1235m	-£1094m
10:30	BoE/Ipsos Inflation Next 12 Mths (Nov)	--	3.60%
Sweden			
08:00	Unemployment Rate SA (Nov)	8.80%	9.30%
Events			
14:00	Fed's Paulson Speaks on Economic Outlook		
14:30	Fed's Hammack Speaks at Real Estate Roundtable Series		
16:35	Fed's Goolsbee Speaks at Economic Outlook Symposium		

10-year	<u>Close</u>	<u>-1d</u>		2-year	<u>Close</u>	<u>-1d</u>	Stocks	<u>Close</u>	<u>-1d</u>
US	4,16	0,01		US	3,54	0,00	DOW	48704,01	646,26
DE	2,84	-0,01		DE	2,16	-0,02	NASDAQ	23593,86	-60,29
BE	3,33	-0,02		BE	2,21	-0,01	NIKKEI	50836,55	687,73
UK	4,48	-0,02		UK	3,77	-0,02	DAX	24294,61	164,47
JP	1,96	0,03		JP	1,07	0,02	DJ euro-50	5753,96	45,84
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	2,41	3,37	3,59	€STR	1,9300	0,0010			
5y	2,57	3,46	3,70	Euribor-1	1,9350	0,0290	SOFR-1	3,7512	-0,0047
10y	2,89	3,75	4,00	Euribor-3	2,1000	0,0180	SOFR-3	3,7097	-0,0096
				Euribor-6	2,1720	0,0070	SOFR-6	3,6461	-0,0100
Currencies	<u>Close</u>	<u>-1d</u>		Currencies	<u>Close</u>	<u>-1d</u>	Commodities	<u>Close</u>	<u>-1d</u>
EUR/USD	1,1738	0,0043		EUR/JPY	182,65	0,21	CRB	300,78	-0,60
USD/JPY	155,59	-0,43		EUR/GBP	0,8767	0,0028	Gold	4313,00	88,30
GBP/USD	1,3388	0,0005		EUR/CHF	0,9337	-0,0019	Brent	61,28	-0,93
AUD/USD	0,6664	-0,0012		EUR/SEK	10,8606	0,0221			
USD/CAD	1,3771	-0,0022		EUR/NOK	11,8206	0,0233			

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