



Wednesday, 17 December 2025

## KBC Sunrise Market Commentary

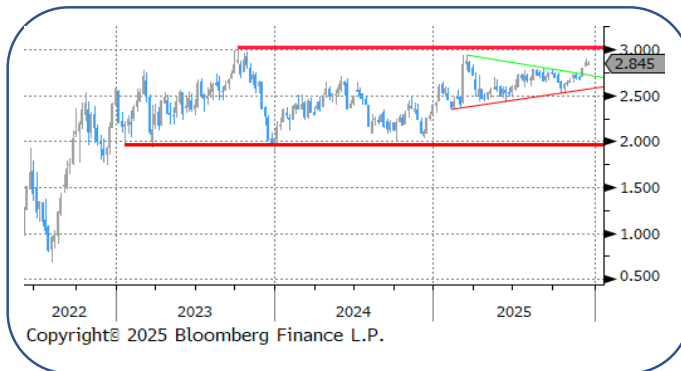
### Markets

- **The jury is still out on the Fed's next plans after payrolls failed to tilt the balance one way or the other.** Markets initially erred on the dovish side, but the case **wasn't compelling enough to fully endorse Q1 rate cut bets** (currently 25% probability for January; 55% for March). The US 2-yr yield tested the end of November low at 3.45% but a break lower didn't occur. Intraday rebound action higher pulled EUR/USD back from first 1.18+ levels since mid-September to close virtually unchanged at 1.1750. The US yield curve eventually flattened with yields ending 1.4 bps (2-yr) to 3.3 bps (30-yr) lower. Calm returned on US stock markets with key indices closing 0.6% lower (Dow) to 0.25% higher (Nasdaq).
- **Better November payrolls (+64k) failed to make up for a weak October report** (-105k; mainly DOGE-impact on government). The US unemployment rate increased from 4.4% in September (BLS unable to conduct October household survey) to a 4-yr high of 4.6% in November (vs 4.5% consensus). Since June (4.1%) it has been one-way traffic higher with alarm bells ringing. Filling the blank October unemployment rate number (eg 4.5%) brings you **dangerously close to the 0.50% threshold of the SAHM rule**. When the 3-month moving average of the unemployment rate exceeds the lowest 3-month moving average of the past year (currently 4.06%) by that amount, the rule indicates a high likelihood of being in the early stage of a recession. Last year, it prompted the Fed into a bigger-than-usual 50 bps rate cut at the start of its cutting cycle. **Risks of a breach at the next payrolls release early January are high** both because of current elevated levels and because the lowest 3-month moving average of the past year will rise to 4.1% with the Dec2024 point dropping out of the equation. We stick with the view that **markets currently underestimate the probability of a continuation of the Fed's normalization cycle early next year**. October US retail sales and December PMI surveys supported the intraday market rebound. **The former because of strength, the latter because of prices spiking higher**. Sales in the retail control group increased by 0.8% M/M (vs 0.4% consensus). The composite PMI set a 6-month low (53 from 54.2) with details showing a second consecutive month of waning momentum. Signs of weakness were broad-based, with a near stalling of inflows of work into the vast services economy accompanied by the first fall in factory orders for a year. A key concern is rising costs, with inflation jumping sharply to its highest since November 2022, which fed through to one of the steepest increases in selling charges for the past three years.
- Significantly lower November UK CPI numbers cement the case for more BoE rate cuts and push EUR/GBP from 0.8750 to 0.8780 in a first reaction this morning.

### News & Views

- **The National Bank of Hungary yesterday kept its policy rate unchanged at 6.5%.** However, its assessment clearly turned **less hawkish**, reopening the debate on potential rate cuts next year. The central bank took notice of **recent declines both in headline (3.8%) and core (4.1%) inflation in November**. This disinflation process was supported by a decrease in global commodity and food prices and the pass-through of a stronger forint into purchase prices. The MNB also saw more moderate monthly repricings in recent months compared to the first half of the year. Corporate inflation expectations were subdued in November, but consumer inflation expectations were seen as remaining stagnant. In its new forecasts, **inflation was downwardly revised both for this year (4.4% from 4.6%) and next year (3.2% from 3.8%)**. Inflation is expected to average 3.3% in 2027, but is seen reaching the 3% level in H2 of that year. **The growth path was slightly downwardly revised to 0.5% this year, 2.4% next year and 3.1% in 2027**. MNB still sees positive real rates as necessary. Maintaining tight monetary conditions is warranted, but the MNB shifts to a data-dependent approach. The 2-y HUF swap rate dropped 10 bps to 6.15%. The forint declined to EUR/HUF 386.
- **The Czech government yesterday approved a plan to reduce electricity bills both for companies and households.** From January on, some levies will be transferred to the government. Industry minister Havlicek expects the shift to **lower electricity prices by 10%**. The move is expected to come at a cost for the budget of CZK17bn, but it is expected to put further downward pressure on inflation. The Czech 2-y swap rate eased 4 bps yesterday. The koruna hardly reacted with EUR/CZK closing the day near 24.32.

## 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.



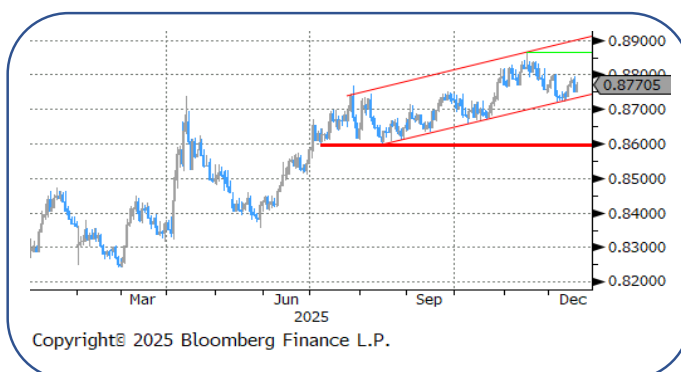
### US 10y yield

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

| Wednesday, 17 December |   | Consensus    | Previous     |
|------------------------|---|--------------|--------------|
| <b>Japan</b>           |   |              |              |
| 0:50                   | Trade Balance Adjusted (Nov)                          | -¥211.1b     | -¥4.2b       |
| <b>UK</b>              |   |              |              |
| 8:00                   | CPI MoM / YoY (Nov)                                   | 0.00%/3.50%  | 0.40%/3.60%  |
| 8:00                   | CPI Core YoY (Nov)                                    | 3.40%        | 3.40%        |
| 8:00                   | CPI Services YoY (Nov)                                | 4.50%        | 4.50%        |
| 8:00                   | PPI Output NSA MoM / YoY (Nov)                        | 0.10%/3.20%  | 0.00%/3.60%  |
| 8:00                   | PPI Input NSA MoM / YoY (Nov)                         | 0.40%/0.60%  | -0.30%/0.50% |
| 12:00                  | CBI Trends Total Orders (Dec)                         | -35          | -37          |
| 12:00                  | CBI Trends Selling Prices (Dec)                       | 9            | 7            |
| <b>EMU</b>             |   |              |              |
| 11:00                  | CPI MoM / YoY (Nov F)                                 | -0.30%/2.20% | -0.30%/2.20% |
| 11:00                  | CPI Core YoY (Nov F)                                  | 2.40%        | 2.40%        |
| 11:00                  | Labour Costs YoY (3Q)                                 | --           | 3.60%        |
| <b>Germany</b>         |   |              |              |
| 10:00                  | IFO Business Climate (Dec)                            | 88.2         | 88.1         |
| 10:00                  | IFO Current Assessment (Dec)                          | 85.8         | 85.6         |
| 10:00                  | IFO Expectations (Dec)                                | 90.5         | 90.6         |
| <b>Events</b>          |   |              |              |
| 8:00                   | Origo Group Big Swedish Inflation Expectations Survey |              |              |
| 14:15                  | Fed's Waller Speaks on Economic Outlook               |              |              |
| 15:05                  | Fed's Williams Delivers Opening Remarks               |              |              |
| 18:30                  | Fed's Bostic Participates in Moderated Discussion     |              |              |

| 10-year    | Close  | -1d     | 2-year     | Close     | -1d     | Stocks      | Close    | -1d     |         |
|------------|--------|---------|------------|-----------|---------|-------------|----------|---------|---------|
| US         | 4,15   | -0,03   | US         | 3,49      | -0,01   | DOW         | 48114,26 | -302,30 |         |
| DE         | 2,85   | -0,01   | DE         | 2,13      | -0,02   | NASDAQ      | 23111,46 | 54,05   |         |
| BE         | 3,33   | -0,01   | BE         | 2,18      | -0,01   | NIKKEI      | 49512,28 | 128,99  |         |
| UK         | 4,52   | 0,02    | UK         | 3,77      | 0,01    | DAX         | 24076,87 | -153,04 |         |
| JP         | 1,97   | 0,01    | JP         | 1,07      | 0,00    | DJ euro-50  | 5717,83  | -34,69  |         |
|            |        |         |            |           |         |             |          |         |         |
|            |        |         |            |           |         |             |          |         |         |
| IRS        | EUR    | USD     | GBP        | EUR       | -1d     | -2d         | USD      | -1d     | -2d     |
| 3y         | 2,39   | 3,32    | 3,59       | €STR      | 1,9320  | 0,0020      |          |         |         |
| 5y         | 2,58   | 3,42    | 3,70       | Euribor-1 | 1,9430  | 0,0140      | SOFR-1   | 3,7465  | 0,0030  |
| 10y        | 2,92   | 3,75    | 4,03       | Euribor-3 | 2,0570  | -0,0150     | SOFR-3   | 3,7073  | 0,0015  |
|            |        |         |            | Euribor-6 | 2,1640  | -0,0040     | SOFR-6   | 3,6311  | -0,0004 |
|            |        |         |            |           |         |             |          |         |         |
|            |        |         |            |           |         |             |          |         |         |
| Currencies | Close  | -1d     | Currencies | Close     | -1d     | Commodities | Close    | -1d     |         |
| EUR/USD    | 1,1747 | -0,0006 | EUR/JPY    | 181,75    | -0,68   | CRB         | 291,69   | -3,81   |         |
| USD/JPY    | 154,72 | -0,51   | EUR/GBP    | 0,8752    | -0,0035 | Gold        | 4332,30  | -2,90   |         |
| GBP/USD    | 1,3423 | 0,0047  | EUR/CHF    | 0,9341    | -0,0017 | Brent       | 58,92    | -1,64   |         |
| AUD/USD    | 0,6632 | -0,0009 | EUR/SEK    | 10,9278   | 0,0155  |             |          |         |         |
| USD/CAD    | 1,3754 | -0,0014 | EUR/NOK    | 11,9687   | 0,0404  |             |          |         |         |

## Contacts

| KBC Economics – Markets Brussels    |                  | Global Sales Force           |                  |
|-------------------------------------|------------------|------------------------------|------------------|
| Mathias Van der Jeugt               | +32 2 417 51 94  | Corporate Desk(Brussels)     | +32 2 417 45 82  |
| Peter Wuyts                         | +32 2 417 32 35  | Institutional Desk(Brussels) | +32 2 417 46 25  |
| Mathias Janssens                    | +32 2 417 51 95  | CBC Desk (Brussels)          | +32 2 547 19 19  |
|                                     |                  | France                       | +32 2 417 32 65  |
|                                     |                  | London                       | +44 207 256 4848 |
|                                     |                  | Singapore                    | +65 533 34 10    |
|                                     |                  | Prague                       | +420 2 6135 3535 |
| CSOB Economics – Markets Prague     |                  |                              |                  |
| Jan Cermak                          | +420 7 3704 4494 |                              |                  |
| Jan Bures                           | +420 6 0455 4876 |                              |                  |
| Dominik Rusinko                     | +420 7 2390 1089 |                              |                  |
| CSOB Economics – Markets Bratislava |                  | Bratislava                   |                  |
| Marek Gabris                        | +421 2 5966 8809 |                              | +421 2 5966 8820 |
| K&H Economics – Markets Budapest    |                  | Budapest                     |                  |
| David Nemeth                        | +36 1 328 9989   |                              | +36 1 328 99 85  |

Discover more insights at [www.kbceconomics.be](http://www.kbceconomics.be)

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the date of the report and are subject to change without notice.

