Friday, 19 December 2025

Dear reader,

There will be no KBC Sunrise from Monday, Dec 22 until Friday, Jan 2. We resume the publication on Monday, Jan 5.

Wishing you a joyful holiday season

KBC Sunrise Market Commentary

Markets

- **US Treasuries outperformed yesterday on benign November CPI numbers.** The partial inflation report showed headline and core inflation slowing down to respectively 2.7% Y/Y and 2.6% Y/Y from 3%. It fits in our view that **markets are underestimating the risk of continuation of the Fed's normalization cycle in Q1 2026.** The dollar temporarily lost ground but fought back in the end (close around EUR/USD 1.1725). US equity markets rebounded on the prospect of a more accommodative Fed's stance with strong Micron earnings also putting aside AI valuation concerns. **Decisions by the ECB and the BoE were as expected.** The ECB raised its growth forecasts over the 2025-2028 horizon, but president Lagarde **refused to give any forward guidance on interest rates** sticking to the mantra that policy "is in a good place" instead. Interest rate stability is our base scenario for at least another 6 months. BoE governor Bailey flipped the vote from 5-4 in favour of unchanged in November to 5-4 in favour of a 25 bps rate cut (to 3.75%) yesterday. **Three out of those five showed reservations against another rate cut on "auto pilot" early next year.** They want more prove of either the disinflation process or a further weakening of the economy/labour market. The "hawkish" cut provided only temporarily relief for sterling with Gilts underperforming.
- **The Bank of Japan raised its policy rate by 25 bps to 0.75% this morning,** the highest level since 1995. The central bank believes that **the likelihood of realizing the baseline scenario** that underlying CPI inflation will be at a level that is generally consistent with the 2% inflation target in the second half of the projection period (fiscal 2025-2027) **has been rising.** Looking forward, the BoJ thinks that it highly likely that the mechanism in which both wages and prices rise moderately will be maintained. **Moves to pass on wage increases to selling prices continues, keeping underlying CPI on an upward trajectory.** Simultaneously, uncertainties around the US economy and the impact of trade policies remain but they have declined. Real interest rates are expected to remain significantly negative and accommodative financial conditions will continue to firmly support economic activity. Therefore, if the outlook presented in October is realized, **the BoJ will raise the policy rate further and adjust the degree of monetary accommodation.** Japanese bonds underperform this morning because of the slightly hawkish guidance. Money market discount a next move at the July meeting, which would accord to the +- 6 month hiking pace in place since March2024 but interrupted during the trade war. Japanese yields add 2.2 bps (2-yr) to 4.8 bps (10-yr) with **the 10-yr yield surpassing the 2% mark and reaching the highest level since 1999.** The Japanese yen fails to profit against a slightly stronger overall dollar and in a positive risk environment (USD/JPY 156.35).

News & Views

- **The Czech National Bank (CNB) unanimously decided to keep its policy rate unchanged at 3.5% yesterday.** Even as inflation has held close to the 2% target over the previous two years, **core inflation is assessed to remain elevated in the quarters ahead.** This ongoing inflation pressures from the domestic economy currently rule out a further decrease in interest rates. The CNB still thinks that a relatively tight monetary policy compared to the past is needed as elevated credit growth is fostering a rise in the quantity of money in the economy. The labour market remains tight and wages are rising at an elevated pace. Household consumption is also increasing. Elevated services inflation and property price growth are having an inflationary effect. Despite this assessment, **the CNB now sees the risks and the uncertainties for the fulfilment of the inflation target as *"balanced overall"*.** In November this risk balance was labeled as *"inflationary overall"*. At the press conference, governor Michl saw **an equal chance for a rate cut or a hike as the next step.** He also indicated that policy won't react to one-off changes in power prices which might push headline inflation below the 2% target next year. The Czech 2-y swap yield declined further to 3.66%.
- **The EU this morning reached an agreement for a loan of €90bn to Ukraine.** The funding of the loan will come from **joint debt issuance backed by the EU budget.** In this respect, the EU **moved away from the plan to use frozen Russian assets.** According to EU leaders, Russian assets remain blocked. If Moscow later pays reparation loans to Ukraine, then Ukraine can use these funds to pay back the EU loan. The agreement also includes that the use of the EU budget **won't impact the financial obligations of Hungary, the Czech Republic and Slovakia,** who were skeptical to provide financial support to Ukraine.

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.

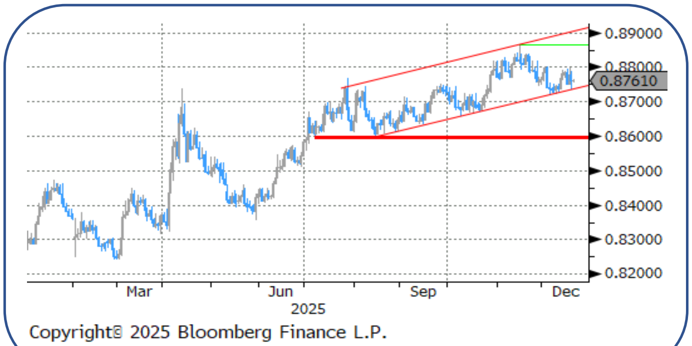
US 10y yield

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. 19 December		Consensus	Previous
US			
16:00	Existing Home Sales (Nov)	4.15m	4.10m
16:00	Existing Home Sales MoM (Nov)	1.20%	1.20%
16:00	U. of Mich. Sentiment (Dec F)	53.5	53.3
Japan			
	BOJ Target Rate	**A: 0.75%**	**0.50%**
0:30	Natl CPI YoY (Nov)	A: 2.90%	3.00%
0:30	Natl CPI Ex Fresh Food YoY (Nov)	A: 3.00%	3.00%
0:30	Natl CPI Ex Fresh Food. Energy YoY (Nov)	A: 3.00%	3.10%
UK			
1:01	GfK Consumer Confidence (Dec)	A: -17	-19
8:00	**Retail Sales Inc Auto Fuel MoM / YoY (Nov)**	**0.30%/0.90%**	**-1.10%/0.20%**
8:00	Retail Sales Ex Auto Fuel MoM / YoY (Nov)	0.10%/1.50%	-1.00%/1.20%
8:00	Public Sector Net Borrowing (Nov)	10.0b	17.4b
12:00	CBI Total Dist. Reported Sales (Dec)		-35
12:00	CBI Retailing Reported Sales (Dec)		-32
EMU			
16:00	Consumer Confidence (Dec P)	-14.0	-14.2
Germany			
8:00	PPI MoM / YoY (Nov)	0.1%/-2.2%	0.10%/-1.80%
8:00	GfK Consumer Confidence (Jan)	-23	-23.2
Belgium			
15:00	Business Confidence (Dec)	--	-8.2
Events			
9:00	ECB's Wunsch Speaks in Brussels		
9:15	Sweden's NIER Publishes New Economic Forecasts		
9:30	**ECB Wage Tracker**		
10:00	ECB's Kocher Speaks in Vienna		
12:00	Belgium to Sell Bonds through Ori Auction (2.25% 2057 & 0.65% 2071)		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	4,12	-0,03		US	3,46	-0,02	DOW	47951,85	65,88
DE	2,85	-0,01		DE	2,14	0,00	NASDAQ	23006,36	313,04
BE	3,33	-0,02		BE	2,19	0,00	NIKKEI	49507,21	505,71
UK	4,48	0,01		UK	3,75	0,04	DAX	24199,5	238,91
JP	2,02	0,05		JP	1,10	0,02	DJ euro-50	5741,71	60,04
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	2,39	3,30	3,55	€STR	1,9310	-0,0010			
5y	2,58	3,40	3,67	Euribor-1	1,9210	-0,0100	SOFR-1	3,7462	-0,0019
10y	2,92	3,74	4,01	Euribor-3	2,0350	-0,0140	SOFR-3	3,6890	-0,0130
				Euribor-6	2,1340	-0,0100	SOFR-6	3,6032	-0,0142
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,1722	-0,0019		EUR/JPY	182,33	-0,47	CRB	293,21	-0,59
USD/JPY	155,55	-0,14		EUR/GBP	0,8761	-0,0017	Gold	4364,50	-9,40
GBP/USD	1,3381	0,0005		EUR/CHF	0,9309	-0,0031	Brent	59,82	0,14
AUD/USD	0,6613	0,0008		EUR/SEK	10,8836	-0,0372			
USD/CAD	1,3777	-0,0010		EUR/NOK	11,9116	-0,0682			

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