

Dollar on the defensive as PMI data boosts case for rate cut

By Gregor Hunter, Reuters, December 2, 2025

The U.S. dollar remained under pressure on Tuesday as weaker-than-expected manufacturing activity data from the world's biggest economy heaped pressure on the Federal Reserve to cut interest rates at its policy meeting later this month. The U.S. dollar index, which measures the greenback's strength against a basket of six major peers, edged lower to 99.408 at the start of the Asian trading session after falling for a seventh consecutive session to hit a two-week low during U.S. trading hours on Monday as stocks and bonds pulled back. Data released on Monday showed U.S. manufacturing contracted for the ninth straight month in November, as the Institute for Supply Management's manufacturing PMI dropped to 48.2 in November from 48.7 a month earlier. Gauges of new orders and employment also deteriorated, while input prices rose as the drag from import tariffs persisted. "It all suggests to me that demand in the economy has decelerated," said Brian Martin, head of G3 economics at ANZ in London. "I really do think the Fed needs to cut interest rates, and not just cut rates in December, but follow through with further cuts next year," he said on a podcast, adding he forecasts an additional 50 basis points of cuts in 2026.

Fed funds futures are pricing in an implied 88% probability of a 25-basis-point cut at the U.S. central bank's next meeting on December 10, compared to a 63% chance a month ago, according to the CME Group's FedWatch tool. The yield on the U.S. 10-year Treasury bond was last up at 4.086% after a selloff in global bond markets on Monday. Against the yen, the dollar traded at 155.51 yen, unchanged from late U.S. levels, after Bank of Japan Governor Kazuo Ueda said on Monday that the central bank would consider the "pros and cons" of raising interest rates at its next policy meeting, sending Japanese two-year yields above 1% for the first time since 2008. The euro stood at \$1.1610, holding steady so far in Asia, as talks to end the war in Ukraine continued, with European leaders rallying around Ukrainian President Volodymyr Zelenskyy after an earlier U.S.-backed peace proposal that favoured Russia, while the U.S. special envoy headed to Moscow for more talks with the Kremlin. Sterling traded at \$1.3216, near its highest levels in a month but little changed so far on the day. The head of Britain's fiscal watchdog resigned on Monday after the agency inadvertently released key details of the government's annual tax and spending budget last week before finance minister Rachel Reeves announced them in parliament. The Australian dollar fetched \$0.6544, while the kiwi dollar traded at \$0.5727, both little changed at the start of the Asian trading session.

World shivers on Japan rate chill

Jamie McGeever, Reuters, December 1, 2025

Global bond yields rose and stocks fell on Monday after Bank of Japan Governor Kazuo Ueda hinted that interest rates may rise later this month, cooling investor optimism around an expected U.S. rate cut and getting December trading off to a rocky start. A heavy wave of equity and bond selling in Japan rippled through global markets on Monday, as investors braced for a Bank of Japan rate hike on December 19. Interestingly though, for once the spike in JGB yields lifted the yen. Has the Japanese currency bottomed? The prospect of an imminent rate hike intensifies the spotlight on JGBs, how much longer Japan's consumers and businesses can tolerate surging yields, and the fiscal-monetary policy nexus. Prime Minister Sanae Takaichi's planned fiscal stimulus may not be accompanied by her preferred monetary accommodation after all.

The latest run-up in silver means the metal has now doubled in price so far this year. Silver hit a record high of \$58.83 an ounce on Monday, up 104% from the \$28.87 close on December 31. It is up as much as 20% in the last week alone. Tight supply, the prospect of more Fed easing, investor diversification, and bullish momentum have all fueled the surge. Silver has shown remarkable resilience in recent weeks, consolidating and even strengthening when gold, stocks, crypto and other assets have retreated to varying degrees. Global growth may be holding up ok, but tariffs and trade tensions are taking their toll on manufacturing - the latest purchasing managers' index (PMI) figures show activity in the United States, euro zone, China and Japan contracted last month. yenFactory activity in the U.S. has now shrunk nine months in a row, suggesting that President Donald Trump's plans to onshore and ultimately revive U.S. industry have yet to bear fruit. There are some bright spots - notably Britain and Italy - but overall it's a fairly gloomy picture.

Why Japan's central bank is stirring up fresh jitters across markets

By Jennifer Sor, Business Insider, Dec 1, 2025

- Monetary policy shifts in Japan stoked fresh volatility in markets on Monday.
- Investors were fretting over the yen carry trade, which previously battered markets in 2024.
- US stocks, crypto, and Treasury bonds were caught in the selling as December kicked off.

The Bank of Japan raised fears about a repeat of the yen carry trade unwind to start the week, reviving concerns about the country's central bank tightening monetary policy. So why exactly is a central bank on the other side of the planet spooking

US investors? It is helpful to recall the moment in August 2024, when volatility suddenly surged after Japanese government bond yields spiked. This created a tough situation for investors who had put on the "yen carry trade," which involves borrowing yen at low interest rates and then converting it into dollars to invest in US assets, such as stocks. When rates rise in Japan, investors can be forced to unwind leveraged bets to cover higher borrowing costs.

Investors on Monday were fearing the Bank of Japan's policy maneuvering could cause another spasm of volatility after governor Kazuo Ueda said the central bank would consider raising interest rates at its upcoming meeting, delivering more hawkish views than markets had been expecting. Markets are pricing in an 80% chance that the Bank of Japan, which has kept borrowing costs low for decades, will continue to raise rates at its December policy meeting. The reaction in both stocks and bonds was negative. Japan's 2-year government bond yield climbed three basis points to trade 1.02% in the early morning, its highest level since 2008. The nation's 10-year Treasury note also ticked up by six basis points to around 1.8%, its highest level in 17 years. Risk assets in the US, meanwhile, were down broadly. Major indexes tumbled early Monday but were recovering some of their losses by about midday.

Japan's 2-year government bond yield



Source: Investing.com

Japan's central bank appears to be "driving the sentiment shift" in markets this week, Thierry Wizman, the global FX and rates strategist at Macquarie Group, said on Monday. "Traders are having second thoughts, it seems, about having run stocks up as much as they did last week," Wizman wrote in a client note on Monday. Stocks enjoyed a relatively strong holiday-shortened week. "Financial markets are kicking off December in a turbulent fashion as policy tightening hints from the Bank of Japan nudge global rates higher and dull the dollar's appeal," Karl Schamotta, the chief market strategist at Corpay, wrote in a note, pointing to how the yen gained against the US dollar. "Traders are waking up this Monday after a quiet Thanksgiving to an overwhelming sense of déjà vu, as a surge in the Japanese yen is once again playing havoc with markets," Nic Puckrin, an investment analyst at The Coin Bureau, wrote in a note. "The Japanese yen carry trade is once again beginning to unwind," he added.

US manufacturing stuck in doldrums as tariff headwinds persist

By Lucia Mutikani, Reuters, December 1, 2025

- Manufacturing PMI slips to 48.2 from 48.7 in October
- New orders measure subdued amid concerns over near-term demand
- Manufacturers laying off workers, not filling open positions

WASHINGTON - U.S. manufacturing contracted for the ninth straight month in November, with factories facing slumping orders and higher prices for inputs as the drag from import tariffs persisted. The Institute for Supply Management survey on Monday also showed some manufacturers in the transportation equipment industry linking layoffs to President Donald Trump's sweeping duties, saying they were "starting to institute more permanent changes due to the tariff environment." They added "this includes reduction of staff, new guidance to shareholders and development of additional offshore manufacturing that would have otherwise been for U.S. export."

Trump in May imposed 25% tariffs on more than \$460 billion worth of imports of vehicles and auto parts annually, but has since struck deals to reduce those tariffs on some countries. The Republican president has issued some tariff relief since then on parts and engines. A new 25% duty on imported medium- and heavy-duty trucks and parts came into effect on November 1. "The manufacturing sector continues to be weighed down by the unpredictable tariffs landscape," said Stephen Stanley, chief U.S. economist at Santander U.S. Capital Markets. The ISM said its manufacturing PMI dropped to 48.2 last month from 48.7 in October. A reading below 50 indicates contraction in manufacturing, which accounts for 10.1% of the economy. With some manufacturers citing the recently ended U.S. government shutdown, a slight improvement is likely, though factory activity will probably remain subdued.

Import duties have undercut manufacturing, though some segments have been boosted by a surge in artificial intelligence investment. The Federal Reserve's Beige Book report last week said some of the U.S. central bank's 12 districts reported manufacturing activity increased somewhat, but noted "tariffs and tariff uncertainty remained a headwind."

Only four industries in the ISM survey, including computer and electronic products, and machinery reported growth. Among the industries that contracted

were wood products, transportation equipment and textile mills. Some makers of chemical products said "tariffs and economic uncertainty continue to weigh on demand for adhesives and sealants, which are primarily used in building construction." Manufacturers of miscellaneous goods reported that "business conditions remain soft as a result of higher costs from tariffs, the government shutdown, and increased global uncertainty."

Electrical equipment, appliances and components makers complained about "trade confusion," with others noting that "suppliers are finding more and more errors when attempting to export to the U.S." Some manufacturers of wood products said AI was "producing confusing and most often inaccurate information," adding that "this also causes apprehensive consumer buying patterns, contributing to the challenge of forecasting demand." The cloud of uncertainty from tariffs is unlikely to clear soon. U.S. Supreme Court justices last month raised doubts over the legality of Trump's tariffs, fueling speculation they would be struck down and cause more chaos, as he is widely expected to shift to other trade tactics in the event of an adverse ruling.

'THE MANUFACTURING SECTOR IS SICK'

Trump has defended the tariffs as necessary to protect domestic manufacturing, though economists have argued it is impossible to restore the industry to its former glory because of structural issues, including worker shortages. "We can see no sign in this report of a surge in manufacturing in the United States since the tariff regime was unveiled last spring," said Carl Weinberg, chief economist at High Frequency Economics. "The manufacturing sector is sick." The ISM survey's forward-looking new orders sub-index decreased to 47.4 last month from 49.4 in October. This measure has contracted in nine of the last 10 months. Tariffs have raised prices for some goods, curbing demand. Unfilled orders continued to shrink, though exports improved slightly. Weak demand meant less pressure on supply chains, though some machinery manufacturers said "transit time on imports seems to be longer" and their counterparts in the fabricated metal products industry reported "longer lead times" because they reduced "suppliers for raw materials to maintain a better direct cost structure."

The ISM survey's supplier deliveries index fell to 49.3 from 54.2 in October. A reading below 50 indicates faster deliveries. Despite subdued orders for factory goods, manufacturers paid more for inputs last month, a sign that inflation could remain above the Fed's 2% target for a while. The survey's prices-paid measure increased to 58.5 from 58.0 in the prior month. "This flags ongoing upside risks to goods prices," said Oren Klachkin, financial market economist at Nationwide. "We see inflation firming a little bit through early next year and losing steam after the impacts of tariffs pass through the data." Fed officials will meet next week to decide on interest rates. As many as five of the 12 voting policymakers on the central bank's rate-setting Federal Open Market Committee have voiced opposition to or skepticism about cutting rates further, while a core of three members of the Washington-based Board of Governors wants rates to fall. The survey's measure of manufacturing employment contracted for the 10th consecutive month. Susan Spence, chair of ISM's Manufacturing Business Survey Committee, noted that "67% of panelists indicated that managing head counts is still the norm at their companies, as opposed to hiring." "That is not a terribly encouraging signal for blue-collar workers at what is a difficult time for employment prospects," said Shannon Grein, an economist at Wells Fargo.

