

# Sunrise



Wednesday, 29 March 2023

## KBC Sunrise Market Commentary

### Markets

- German yields rebounded another 6.5 bps across the curve yesterday. US yields ended over 10 bps higher at the front end (2-3y) with gains at the longer end limited to 1-3 bps (10-30y).** The European trading session went without a splash. **Early US eco data included unexpectedly strong increases for both the March Richmond Fed Manufacturing index (-5 from -16 vs -10 expected) and consumer confidence (104.2 from 103.4 vs 101 expected).** Details from the Richmond survey showed significant improvements in new orders and shipments and a more modest increase in employment. The forward looking part of the report suggests more wage pressure ahead with prices paid & received further mean reverting. **The interesting part of the consumer confidence was that the survey date was March 20, in the midst of the regional banking crisis.** The stronger number suggests that the strong labour market trumps any worries about potential consequences of the collapse of SVB and some others. On top, especially expectations for the future improved (+2.6). **Just like PMI's last Friday, markets didn't respond to the numbers. For the moment, their reaction function is asymmetric.** They need more convincing to shy away from the idea that central banks are at/very near the end of their policy normalization cycles. **We stick to our view that more ground has to be covered.** If not, central banks risk running behind the curve in the second half of this year. That suggest that more (hawkish) repositioning will follow if data hold their course. The first reference are EMU inflation numbers on Thursday and on Friday. The US Treasury continued its end-of-month refinancing operation yesterday with a \$43bn 5-yr Note sale. The auction stopped through the WI yield with the bid cover in line with recent average (2.45). Overall, the auction thus fared better than Monday's 2-yr Note auction. The Treasury sells \$35bn 7-yr Notes tonight.
- Yesterday's bond sell-off no longer went hand-in-hand with rebounding stock markets.** Main indices managed a slightly positive close in Europe and suffered small losses in the US. **EUR/USD did extend Monday's rebound with the pair finishing an inch away from 1.0850 compare to opening levels at 1.08.** EUR/GBP closed broadly flat at 0.8790. We expect this week's trading dynamics to remain at play today given the very thin eco calendar. **We must add that the vigor already diminished yesterday compared to Monday and that it could weaken further still today.** German/French consumer confidence and US pending home sales are the unattractive highlights. Central bank speeches remain a wildcard.

### News & Views

- Australian inflation eased from 7.4% to 6.8% in February,** representing a bigger-than-expected deceleration. **Core inflation retreated from 7.5% to 6.9%.** Most components experienced milder yet still-high price increases. Housing (9.9%) and food (8%) showed the steepest inflation, followed by household furnishings (6.6%) and recreation (6.4%). Prices of education, insurance/financial services and alcohol & tobacco even accelerated again in year-on-year terms. **The second monthly decline in a row strengthens the RBA's view that inflation indeed peaked in Q4 last year.** Odds for another rate hike diminished significantly in the wake of the recent turmoil on financial markets. With today's data, **markets not only assume a pause in the tightening cycle in April, in their view it is also the end.** The RBA lifted rates by 350 bps to 3.6% over the past year. Australian swap yields ease 4.7-8.8 bps across the curve with the long end outperforming. The Aussie dollar holds steady around the 0.67 big figure.
- Greek PM Mitsotakis called general elections for May 21.** That's two months earlier as the government suffers from a wave of protests over the country's deadliest train crash in its history. Support for Mitsotakis's ruling centre-right party has fallen. But **the New Democracy party still has an opinion poll lead over Syriza, the main contender currently.** The elections will be the first under the recently introduced system of **proportional representation,** making it difficult for a single party to form a government. If coalition talks fail, a second ballot under a semi-proportional system is expected to be held by the beginning of July at the latest.

# Graphs



**GE 10y yield**

The ECB stuck to its plan to hike the deposit rate by 50 bps in March despite recent turmoil around some regional US banks and Credit Suisse. It provided no specific guidance for the May meeting, but clearly stated that more ground has to be covered if inflation develops as forecast (>2% over policy horizon and recent uncertainty wanes. **Such scenario should put a floor below yields despite the huge amount of volatility.**



**US 10y yield**

The Fed delivered a 25 bps dovish hike in March. **Uncertainty around the fall-out from the regional bank implosion clouds the outlook.** The new dot plot suggests one more final move this year. It does not show rate cuts pencilled in for 2023 but markets beg to differ. Short-term US yields tanked. Longer tenors, including the 10-yr, suffer from recessionary fears. Support around 3.3% was tested, but survived



**EUR/USD**

The euro profited from the ECB's unabated hawkish stance and subsiding energy concerns. The nearing end of the Fed cycle combined with local financial stability concerns meanwhile weighted on the dollar. EUR/USD surpassed the 1.0735 resistance and tries to hold above this level even as uncertainty on financial stability also affected European markets. Some consolidation might be on the cards for EUR/USD.



**EUR/GBP**

The usually risk-sensitive pound proved surprisingly resilient recently. This may not last. The BoE raised rates by 25 bps. A next move higher is still conditional but in any case priced in already. As with the Fed, markets instead start anticipating the BoE cutting cycle. **This contrasts with ongoing hawkish ECB rhetoric.** It adds to the already weak structural GBP cards (weaker growth prospects, twin deficits, long term brexit consequences...).

# Calendar & Table

Wednesday, 29 March		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	3.00%
16:00	Pending Home Sales MoM/NSA YoY (Feb)	-3.00%/--	8.10%/-22.40%
<b>UK</b>			
10:30	Net Consumer Credit (Feb)	1.3b	1.6b
10:30	Consumer Credit YoY (Feb)	--	7.50%
10:30	Money Supply M4 MoM/YoY (Feb)	--/--	1.30%/2.70%
<b>Germany</b>			
08:00	GfK Consumer Confidence (Apr)	-29.8	-30.5
<b>France</b>			
08:45	Consumer Confidence (Mar)	81	82
<b>Czech Republic</b>			
14:30	Repurchase Rate	7.00%	7.00%
<b>Events</b>			
10:00	ECB's Kazimir Speaks		
11:00	BOE releases financial policy summary		
14:05	NY Fed Head of Supervision Dianne Dobbeck Speaks to Bankers		
19:00	U.S. To Sell 7-Year Notes		
16:00	Fed's Barr Appears Before the House Financial Services Panel		
20:50	BOE's Catherine Mann speaks		
22:45	ECB Executive Board Member Schnabel at NABE Conference		

<b>10-year</b>	<u>Close</u>	<u>-1d</u>		<b>2-year</b>	<u>Close</u>	<u>-1d</u>	<b>Stocks</b>	<u>Close</u>	<u>-1d</u>
US	3.57	0.04		US	4.08	0.08	DOW	32394.25	-37.83
DE	2.29	0.06		DE	2.59	0.07	NASDAQ	11716.08	-52.76
BE	2.97	0.06		BE	2.63	0.06	NIKKEI	27816.43	298.18
UK	3.46	0.09		UK	3.36	0.05	DAX	15142.02	14.34
JP	0.30	-0.05		JP	-0.07	-0.01	DJ euro-50	4168.21	3.59
<b>IRS</b>	<u>EUR</u>	<u>USD</u>	<u>GBP</u>	<u>EUR</u>	<u>-1d</u>	<u>-2d</u>	<u>USD</u>	<u>-1d</u>	<u>-2d</u>
3y	3.17	4.06	3.99	Ester	2.8980	0.0000			
5y	3.01	3.74	3.73	Euribor-1	2.9040	0.0020	Libor-1	4.8523	0.0000
10y	2.97	3.56	3.43	Euribor-3	2.9900	-0.0220	Libor-3	5.1431	0.0000
				Euribor-6	3.2690	0.0300	Libor-6	5.1611	0.0000
<b>Currencies</b>	<u>Close</u>	<u>-1d</u>		<b>Currencies</b>	<u>Close</u>	<u>-1d</u>	<b>Commodities</b>	<u>Close</u>	<u>-1d</u>
EUR/USD	1.0845	0.0047		EUR/JPY	141.94	-0.13	CRB	263.49	1.16
USD/JPY	130.89	-0.68		EUR/GBP	0.8787	-0.0001	Gold	1990.40	18.90
GBP/USD	1.2342	0.0055		EUR/CHF	0.9975	0.0088	Brent	78.65	0.53
AUD/USD	0.6709	0.0058		EUR/SEK	11.2274	0.0208			
USD/CAD	1.3601	-0.0060		EUR/NOK	11.2318	-0.0685			

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