

Sunrise



Moving forward together.

Thursday, 30 March 2023

KBC Sunrise Market Commentary

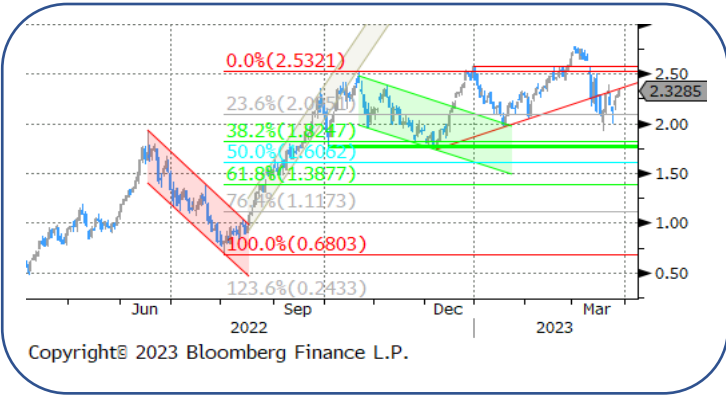
Markets

- Yesterday, **markets** further left behind last week's financial stability concerns and **returned to the order of the day**. However, the eco calendar didn't provide much high profile data to color the intraday dynamics. **Markets basically build on the 'normalization move' from earlier this week**. US yields maintained recent gains but in the end closed little changed (2 y +2.0 bps; 30-y -1 bp). About further rate hikes **Fed Chair Powell**, in a meeting with US House representatives, was said to have referred to the dots, penciling in one additional rate hike. A \$ 35 bln **7-y US Treasury auction** only drew modest investor interest (bid/cover 2.39 VS 2.49 average and 1.1 bps above WI yield). **German bunds again slightly underperformed Treasuries** with yields rising between 6.2 bps (2-y) and 3.5 bps (30-y). **Chief economist Lane** also reiterated recent ECB mantra that rates will have to be raised further under the ECB baseline scenario assuming only limited impact from recent financial turmoil. Relative calm on bond markets inspired **a further equity rebound**. Both US and European indices closed with solid gains (Euro Stoxx 50 + 1.51%, Dow +1.0%, Nasdaq +1.79%). **On FX markets**, the dollar showed no clear directional trend. DXY closed modestly higher near 102.64. EUR/USD finished the day unchanged at 1.0845. USD/JPY rebounded sharply from a close near 130.9 on Tuesday to 132.86 yesterday evening. Sterling lost a few ticks against the single currency but the EUR/GBP cross rates stayed in well-known territory near the 0.88 big figure.
- Asian equity markets this morning show a mixed picture and fail to fully profit from yesterday's strong momentum on WS. US yields gain marginally. The dollar still shows no clear trend (DXY 102.65, USD/JPY 132.6; EUR/USD 1.084). **Today**, markets will receive first important price data after recent financial turmoil with Germany, Spain and Belgium reporting **first European March inflation data ahead of tomorrow's EMU flash estimate**. The EC also will published its monthly economic confidence data. (European) inflation data these days are often affected by the impact of domestic measures to support consumers' purchasing power which might lead to an a-synchronic pattern between countries. However, the expected **monthly dynamics** (Spain 1.6%, Germany 0.8%), if it materializes, still might confirm recent evidence of **stubborn underlying price pressures**. This should support the case that the ECB has to continue its anti-inflationary campaign if financial stability concerns ebb further. For the German 10-y yield, 2.393% is next resistance on the charts (neckline ST double bottom). Data cementing the view that the ECB will (have to) continue its hiking cycle, probably well beyond the Fed reaching the peak in its campaign, might put **a floor for the euro**. EUR/USD 1.0930 remains final intermediate resistance before a return to the 1.1033 YTD top.

News & Views

- The **Czech National Bank** kept rates unchanged at 7% in a 6-1 vote with the dissenter voting for a 25 bps increase. Despite the risen uncertainty, **the CNB is unwilling to ditch the possibility of further hikes**. It also said that it considers market expectations regarding the timing of a first cut to be premature. The current policy level according to the CNB is dampening domestic demand with real household consumption falling for a fifth consecutive quarter. Investment growth is hampered by increased energy and commodity costs. On the other hand, Czech unemployment remains low. **Inflation decreased to 16.7% in February and will fall further in coming months to hit single digits in 2023H2**. It should fall close to the 2% target next year. The CNB Board identifies a series of risks going in both directions, including faster-than-expected wage growth or a weaker consumption and investor demand. The **Czech koruna strengthened yesterday** from EUR/CZK 23.63 to 23.56 after the CNB in the statement formally pushed back on rate cuts. Czech swap yields advanced up to 9.8 bps at the front end but the upleg already took place in the run-up to the meeting.
- The **US Federal Deposit Insurance Corp is facing a blow of almost \$23bn in costs from the recent bank failures**. To shore up the \$128bn insurance fund, the agency is considering to pass through **a larger-than-usual portion of the burden to the biggest banks, according to people familiar with the matter**. The issue is a politically hot item with government officials publicly demanding regulators to spare small banks in the process of rebuilding the FDIC's coffers.

Graphs



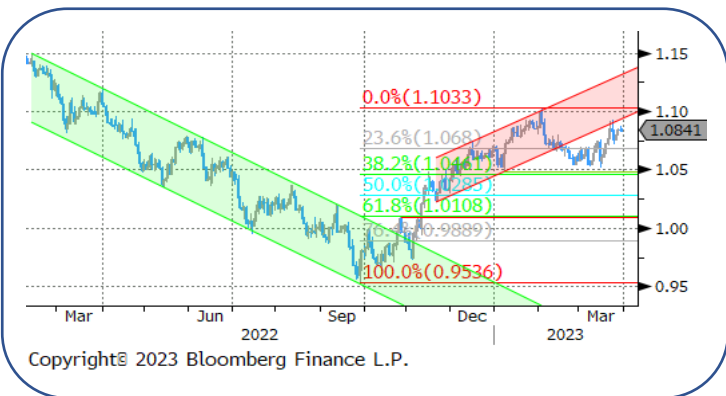
GE 10y yield

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, suffered 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 held 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

Thursday, 30 March		Consensus	Previous
US			
14:30	Initial Jobless Claims	195k	191k
14:30	Continuing Claims	1700k	1694k
EMU			
11:00	Consumer Confidence (Mar F)	--	-19.2
11:00	Economic Confidence (Mar)	100.0	99.7
11:00	Industrial Confidence (Mar)	0.5	0.5
11:00	Services Confidence (Mar)	10.0	9.5
Germany			
14:00	CPI MoM/YoY (Mar P)	0.70%/7.30%	0.80%/8.70%
14:00	CPI EU Harmonized MoM (Mar P)	0.80%/7.50%	1.00%/9.30%
Belgium			
24MAR	CPI MoM/YoY (Mar)	--/--	-0.70%/6.62%
Spain			
09:00	CPI EU Harmonised MoM/YoY (Mar P)	1.60%/3.70%	0.90%/6.00%
Events			
10:00	ECB Publishes Economic Bulletin		
14:40	Riksbank's Bunge speech on financial stability		
18:00	SNB's Maechler, T. Moser Speak on SNB Event in Zurich		
18:45	Fed's Barkin Speaks at Virginia Council of CEOs Event		
18:45	Fed's Collins Speaks at NABE in Washington		

10-year	Close	-1d	2-year	Close	-1d	Stocks	Close	-1d	
US	3,56	-0,01	US	4,10	0,02	DOW	32717,6	323,35	
DE	2,33	0,04	DE	2,65	0,06	NASDAQ	11926,24	210,16	
BE	2,99	0,02	BE	2,67	0,03	NIKKEI	27716,2	-167,58	
UK	3,47	0,02	UK	3,41	0,05	DAX	15328,78	186,76	
JP	0,32	0,00	JP	-0,08	-0,01	DJ euro-50	4231,27	63,06	
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	3,19	4,07	4,06	Ester	2,8940	0,0000			
5y	3,03	3,75	3,77	Euribor-1	2,9050	0,0010	Libor-1	4,8587	0,0000
10y	2,99	3,57	3,44	Euribor-3	3,0150	0,0250	Libor-3	5,1629	0,0000
				Euribor-6	3,2900	0,0210	Libor-6	5,2467	0,0000
Currencies	Close	-1d	Currencies	Close	-1d	Commodities	Close	-1d	
EUR/USD	1,0844	-0,0001	EUR/JPY	144,07	2,13	CRB	262,71	-0,78	
USD/JPY	132,86	1,97	EUR/GBP	0,8806	0,0019	Gold	1984,50	-5,90	
GBP/USD	1,2314	-0,0028	EUR/CHF	0,9960	-0,0015	Brent	78,28	-0,37	
AUD/USD	0,6684	-0,0025	EUR/SEK	11,2715	0,0441				
USD/CAD	1,3559	-0,0042	EUR/NOK	11,2857	0,0539				

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