Thursday, 13 April 2023

KBC Sunrise Market Commentary

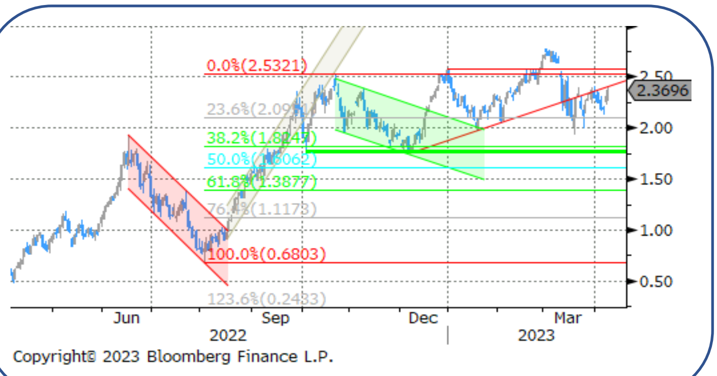
Markets

- US CPI and the March Fed meeting minutes were the main events defining trading yesterday. The former showed headline prices easing a full percentage point to an annual 5% but a core gauge accelerating from 5.5% to 5.6% on the bank of sticky services/housing inflation. **US bond yields whipsawed** with the 2-y losing 20 bps from intraday highs, followed by a 15 bps rebound in the hours thereafter. The 10-y fell but then recouped all of the 12 bps drop. The minutes later revealed the **Fed balancing risks of a credit crunch following the SVB collapse and stubbornly high inflation.** They raised rates by 25 bps and the updated dot plot suggested one more in store even as **Fed staff warned for a mild recession.** But that's less than what officials expected to do before the financial turmoil erupted, according to the minutes. Given the uncertain outlook, there's a need for "flexibility and optionality". The sky in the meantime cleared up a bit, something which several Fed governors including Daly yesterday, acknowledged. Yet, the overall dovish tone of the minutes in the end still prevented the 2-y yield (-6.4 bps) a close above 4%. Longer maturities underperformed with the 10-y eventually losing 3.5 bps and the 30-y adding 0.4 bps. The US induced decline in German Bund yields was quickly followed by a vigorous rebound, leading to net gains of 5.6 bps (30-y) to 9 bps (2-y). Strong Bund underperformance brought EUR/USD within striking distance of the 1.10 big figure. Dollar weakness also did its part. The trade-weighted index fell from 102.12 to 101.50. EUR/GBP managed to close above 0.88 for the first time since end-March. BoE governor Bailey in an after-market speech said that **financial stability issues won't distract the central bank from its fight against inflation through higher rates,** adding that it has different tools to address the matter. Equities struggled. The Euro Stoxx 50 erased a 1.5% gain to trade flat, Wall Street ended a choppy session in the red (Nasdaq -0.85%).
- The Australian dollar is the top performer during Asian trading this morning on the back of a stronger-than-expected labour market report. The USD trades stable with EUR/USD hovering near yesterday's closing levels close to but below 1.10. US cash yields eke out gains of up to 2.5 bps at the front. The 2-y yield remains close near the 4% barrier. Today's economic calendar contains jobless claims and US PPI numbers. Seeing the **market's over-sensitiveness for downside surprises**, core bond yields face larger risks for losing further ground, especially in the US. The dollar in such a case may break through support at around EUR/USD 1.10(33). Doing so immediately brings 1.1185/86 on the radar. The UK industrial update this morning slightly disappoints but sterling in a first reaction trades little changed.

News & Views

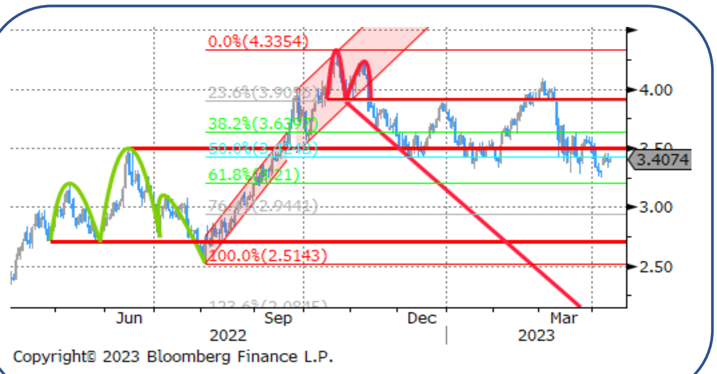
- **The Bank of Canada kept its policy rate as expected unchanged at 4.5% for a second meeting running.** Quantitative tightening continues to complement the restrictive policy stance. It also sticks with a **tightening bias** if needed to return inflation to the 2% target. Canadian money markets discount a flat policy rate path until December, when they discount a 25 bps rate cut. **BoC governor Macklem pushed back against that scenario** at the press conference. The BoC expects CPI inflation (5.2% Y/Y in February) to quickly fall to around 3% mid 2023 and then decline more gradually to target by end 2024. **Risks are tilted to the upside because inflation expectations are coming down slowly, service price inflation and wage growth remain elevated, and corporate pricing behavior has yet to normalize.** Canadian demand is still exceeding supply and the labour market remains tight. Canadian Q1 growth looks to be stronger than anticipated in January with solid consumption and a bounce in exports. The former could take a hit as households renew mortgages at higher rates and as restrictive policy works its way through the economy more broadly. The latter might come under pressure in coming months as US growth is expected to slow considerably. The BoC projects GDP to grow by 1.4% this year (from 1%), 1.3% in 2024 (from 1.8%) and 2.5% in 2025.
- **March Australian labour data printed very strong this morning.** Recall that February jobs data also delivered a big positive surprise (+63.6k). **Employment grew by 53k (vs 20k expected) with full time job gains even bigger at 72.2k.** Part time jobs fell by 19.2k. The unemployment rate stabilized at a near 50-yr low of 3.5% (vs 3.6% expected) with the participation rate unchanged at 66.7% as well. **Australian money markets aren't convinced yet that back-to-back payroll strength will tempt the RBA into delivering a (final?) 25 bps rate hike at the May policy meeting.** The Aussie dollar trades slightly strong this morning against a weak USD (AUD/USD 0.67).

Graphs



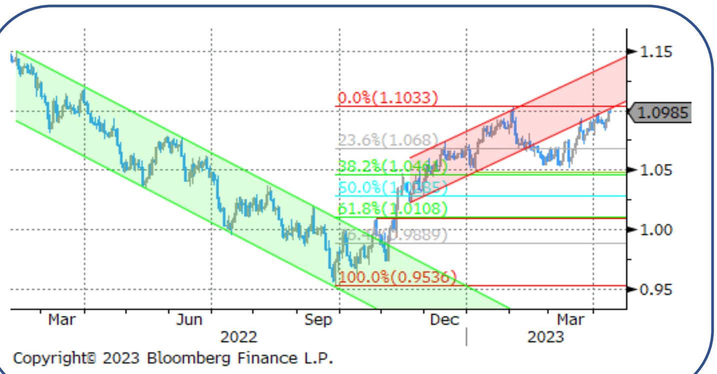
GE 10y yield

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 suffer from recessionary fears. March payrolls eased pressure on the 3.3% support area but a return above 3.50% is needed to call off the downside alert.



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 1.0735 resistance and aims for the 1.1033 YTD top. Some consolidation might be on the cards for EUR/USD in the short run.

EUR/GBP

The usually risk-sensitive **pound proved surprisingly resilient during the banking turmoil.** The BoE raised rates by 25 bps. A next move higher is still conditional but in any case priced in already. Divergency within the BoE about the way forward 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, 13 April		Consensus	Previous
US			
14:30	**Initial Jobless Claims**	**235k**	**228k**
14:30	Continuing Claims	1835k	1823k
14:30	PPI Final Demand MoM/YoY (Mar)	0.00%/3.00%	-0.10%/4.60%
14:30	PPI Ex Food and Energy MoM (Mar)	0.30%/3.40%	0.00%/4.40%
14:30	PPI Ex Food, Energy, Trade MoM (Mar)	0.30%/3.80%	0.20%/4.40%
Japan			
01:50	Money Stock M3 YoY (Mar)	2.10%A	2.20%
UK			
01:01	RICS House Price Balance (Mar)	-43%A	-47%R
08:00	Monthly GDP MoM/3M-3M (Feb)	0.10%/0.00%	0.30%/0.00%
08:00	Industrial Production MoM/YoY (Feb)	0.20%/-3.70%	-0.30%/-4.30%
08:00	Manufacturing Production MoM/YoY (Feb)	0.20%/-4.50%	-0.40%/-5.20%
08:00	Index of Services MoM/3M-3M (Feb)	-0.10%/-0.10%	0.50%/0.00
08:00	Construction Output MoM/YoY (Feb)	1.00%/1.60%	-1.70%/0.60%
08:00	Trade Balance GBP/Mn (Feb)	-£4900m	-£5861m
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Feb)	1.00%/1.90%	0.70%/0.90%
China			
13APR	Exports YoY CNY (Mar)	--	-0.50%
13APR	Trade Balance CNY (Mar)	--	550.11b
13APR	Imports YoY CNY (Mar)	--	2.20%
Czech Republic			
09:00	**CPI MoM/YoY (Mar)**	**--/--**	**0.60%/16.70%**
Events			
10:30	Bank of England Bank Liabilities/Credit Conditions Surveys		
13:45	**ECB's Nagel Speaks**		
15:00	**BOE's Huw Pill speaks**		
19:00	U.S. To Sell 30-Year Bond		
20:00	**ECB's Nagel Speaks**		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.39	-0.04		US	3.96	-0.06	DOW	33646.5	-38.29
DE	2.37	0.06		DE	2.80	0.09	NASDAQ	11929.34	-102.54
BE	3.05	0.04		BE	2.83	0.12	NIKKEI	28136.39	53.69
UK	3.57	0.03		UK	3.52	0.03	DAX	15703.6	48.43
JP	0.47	0.01		JP	-0.04	0.01	DJ euro-50	4334.03	0.74
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.28	3.89	4.07	Ester	2.8980	0.0010			
5y	3.09	3.54	3.81	Euribor-1	2.8890	0.0000	Libor-1	4.9373	0.0000
10y	3.00	3.38	3.52	Euribor-3	3.1260	0.0180	Libor-3	5.2416	0.0000
				Euribor-6	3.4300	0.0740	Libor-6	5.3516	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0992	0.0080		EUR/JPY	146.34	0.45	CRB	275.73	1.00
USD/JPY	133.13	-0.55		EUR/GBP	0.8804	0.0021	Gold	2024.90	5.90
GBP/USD	1.2485	0.0061		EUR/CHF	0.9852	-0.0006	Brent	87.33	1.72
AUD/USD	0.6691	0.0037		EUR/SEK	11.3708	-0.0381			
USD/CAD	1.3442	-0.0025		EUR/NOK	11.479	-0.0409			

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