



Thursday, 20 April 2023

KBC Sunrise Market Commentary

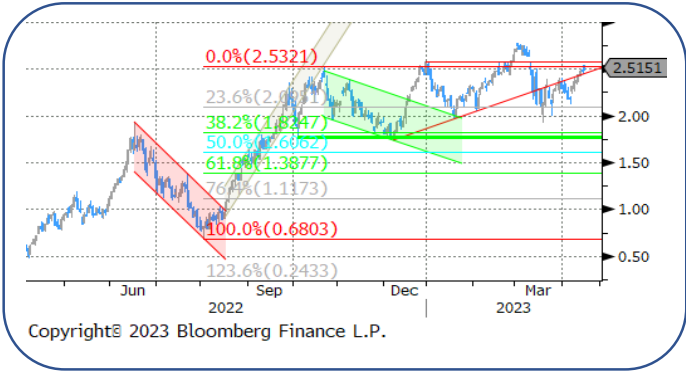
Markets

- Yesterday's **higher than expected UK CPI data provided a wake-up call for global markets**. Despite rising uncertainty on growth, monetary policy probably needs to be tighter for longer compared to what was hoped for after the financial turmoil last month. Gilts understandably underperformed Bunds and Treasuries with UK yields adding between 13.9 bps (2-y) and 8.5 bps (30-y). US and European yields followed the UK move at a distance. US yields gained up to 4.7 bps (2-y) implying some modest further curve inversion. German yields rose between 6.2 bps (2-y) and 1.9 bp (30-y). The **Fed Beige Book** preparing the May 02-03 policy meeting suggests that economic activity recently was little changed. Credit conditions have tightened. The rate of price increases appears to be slowing. Labour market/wage indications also showed somewhat of a more balanced picture. In a speech after the close of markets, **New York Fed President John Williams** basically joined the (anecdotal) evidence from the Beige Book. He admitted that inflation stays too high, but recent data indicate it might continue to slow. He also sees signs of a gradual cooling in demand for labour. Tightening of credit conditions might further weigh on activity/demand. Both the Beige Book and the Williams comments support the case for the Fed to raise the policy rate by 25 bps in May and then taking a wait-and-see approach. **The impact of the repositioning in yields on other markets was modest**. Equities, both in the US and Europe, finished the day little changed. **The dollar rebounded, but gains remained modest and moves easily stayed within recent barriers**. DXY closed at 101.97 (from 101.70). EUR/USD finished at 1.0955 (from 1.0972). USD/JPY extended its recent gradual uptrend (134.72 from 134.12). Sterling outperformed the dollar and the euro. Even so, EUR/GBP still closed north of 0.88(07).
- Asian equities show modest losses this morning. US yields and the dollar are little changed. Later today, the economic calendar contains **EC consumer confidence, US initial jobless claims** and the **Philly Fed business outlook**. There are again plenty of Fed and ECB governors scheduled to give their view ahead of upcoming black-out period. We keep a close eye on the ECB comments **to get some insight on the chances of an additional 50 bps step at the May meeting**. We dissect **Minutes of the ECB meeting** in the same way. Markets probably underestimate the odds for such a move. This debate keeps EMU yields, especially at the short end of the curve, well supported. The German 2-y yield nears 3% resistance. The downside in EUR/USD at 1.0831 is currently well protected.

News & Views

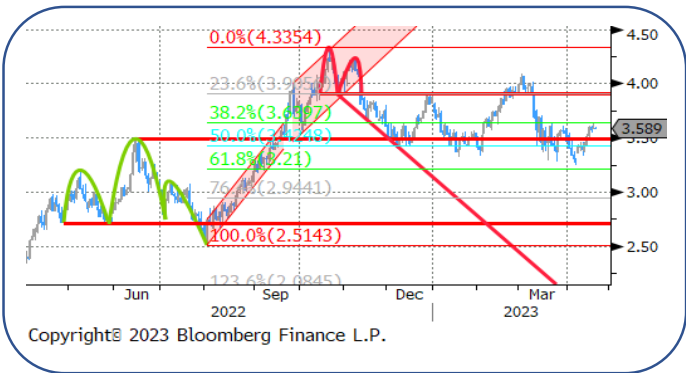
- New Zealand inflation decelerated from 1.4% q/q in 2022Q4 to 1.2% in the first quarter of this year**, going against expectations for a quickening to 1.5%. The yearly figure as a result eased more than anticipated, from 7.2% to 6.7%. The Reserve Bank of New Zealand in its February statement projected 7.3%. **Food (3.7% q/q)** and tobacco (4.1% q/q) were key drivers while housing & household utilities eased to a still above-average 1% q/q. **Transportation costs** weighed heavily (-1.3% q/q) as energy/oil prices dropped considerably. **CPI excluding food, household energy and vehicle fuels increased 6.5% y/y, only marginally lower than the 6.7% 2022Q4 while non-tradeable inflation (a proxy for services inflation) quickened to 1.7% q/q**. The RBNZ earlier this month hiked by 50 bps to 5.25% and said the direction of future monetary policy will be determined by the course of core inflation. New Zealand swap rates tumble between 8.9 and 12 bps with the front end of the curve outperforming. Market expectations for the terminal rate have lowered about 10 bps to 5.50%, implying one more 25 bps rate hike at either the May or July meeting. The kiwi dollar underperforms peers this morning. USD/NZD eases from 0.62 to 0.6157 currently.
- The EU is preparing an emergency ban on Ukrainian grain imports to the four member states bordering Ukraine plus Bulgaria**, the Financial Times reported. The move seeks to regularize unilateral moves by the likes of Poland and Hungary. They barred imports that were meant to but couldn't be re-exported because of truck and train shortages, pressuring local prices and farmers. Problems arose when the EU following the Russian invasion introduced a wartime free-trade regime for agricultural products. **Originally planned to end in June this year, the EU wants to extend it**. The renewed version is likely to include stronger provisions that allow the bloc to take measures to protect its own market more rapidly...

Graphs



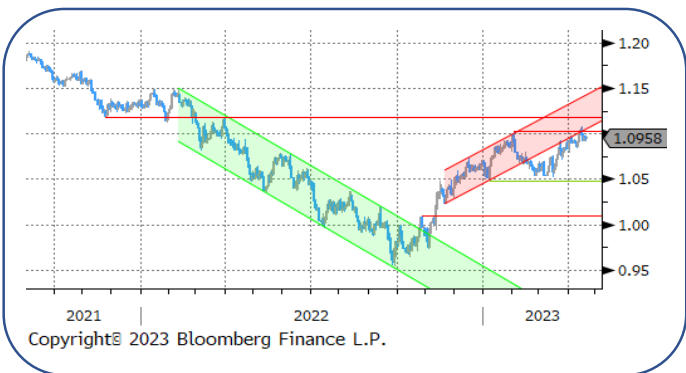
GE 10y yield

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 puts 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. ST US yields tanked. Longer tenors suffer from recessionary fears. The 3.3% support area was tested multiple times but survived. A sustained return above 3.50/3.64% would call off the downside alert.



EUR/USD

The euro profited from the ECB's unabated hawkish stance and subsiding energy concerns. The nearing end and expected (by markets) reversal of the Fed cycle meanwhile weighed on the dollar. EUR/USD is challenging the 1.1033 YTD top. A confirmed break technically implies a return to 1.1185.



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, 20 April		Consensus	Previous
US			
14:30	Initial Jobless Claims	240k	239k
14:30	Continuing Claims	1825k	1810k
14:30	Philadelphia Fed Business Outlook (Apr)	-19.3	-23.2
16:00	Existing Home Sales Total/MoM (Mar)	4.50m/-1.80%	4.58m/14.50%
Japan			
01:50	Trade Balance Adjusted (Mar)	-¥1209.9bA	-¥1253.0bR
01:50	Exports/Imports YoY (Mar)	4.30%A/7.30%A	6.50%/8.30%
06:30	Tertiary Industry Index MoM (Feb)	0.40%	0.90%
EMU			
16:00	Consumer Confidence (Apr P)	-18.5	-19.2
Germany			
08:00	PPI MoM/YoY (Mar)	-0.60%/9.80%	-0.30%/15.80%
France			
08:45	Business Confidence (Apr)	103	103
08:45	Production Outlook Indicator (Apr)	--	-1
08:45	Business Survey Overall Demand (Apr)	--	5
Belgium			
11:00	Consumer Confidence Index (Apr)	--	-9
Events			
Q1 earnings	American Express (13:00), SVB Financial Group (aft-mkt) ...		
01:00	Fed's Williams Speaks in New York		
13:30	ECB March Meeting Account		
15:15	ECB's Visco Speaks in London		
17:00	ECB's Holzmann Speaks in Vienna		
18:00	Fed's Waller Discusses Financial Innovation		
18:20	Fed's Mester Discusses the Economic and Policy Outlook		
21:00	Fed's Bowman Takes Part in Fed Listens Event		
21:00	Fed's Logan Speaks at Fed Listens Event in Texas		
22:15	ECB's Schnabel Speaks		
23:00	Fed's Bostic Discusses Economic Conditions		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3,59	0,02		US	4,24	0,05	DOW	33897,01	-79,62
DE	2,52	0,04		DE	2,97	0,06	NASDAQ	12157,23	3,82
BE	3,19	0,04		BE	2,97	0,06	NIKKEI	28669,46	62,70
UK	3,86	0,11		UK	3,83	0,14	DAX	15895,2	12,53
JP	0,48	-0,01		JP	-0,04	0,00	DJ euro-50	4393,57	-0,38
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3,45	4,15	4,37	Ester	2,9020	0,0010			
5y	3,24	3,78	4,08	Euribor-1	2,9870	0,0190	Libor-1	4,9527	0,0000
10y	3,14	3,59	3,76	Euribor-3	3,2050	0,0050	Libor-3	5,2504	0,0000
				Euribor-6	3,5870	0,0250	Libor-6	5,4113	0,0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1,0955	-0,0017		EUR/JPY	147,59	0,43	CRB	275,02	-3,91
USD/JPY	134,72	0,60		EUR/GBP	0,8807	-0,0024	Gold	2007,30	-12,40
GBP/USD	1,2439	0,0014		EUR/CHF	0,9832	-0,0001	Brent	83,12	-1,65
AUD/USD	0,6713	-0,0012		EUR/SEK	11,3412	0,0257			
USD/CAD	1,346	0,0070		EUR/NOK	11,5907	0,1140			

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