



Friday, 24 March 2023

KBC Sunrise Market Commentary

Markets

- The ECB hiked last week and signaled more to come if the base scenario unfolds. The Fed on Wednesday hiked and struggled to convince markets that this won't be the last of the cycle. **The Bank of England yesterday took a middle road.** It raised the policy rate by 25 bps to 4.25%. Inflation in February ran higher than expected but mainly due to what it considers a one-off and it is still expected to ease materially in coming months. Yet, the economy and labour market proved stronger than expected. Against this background, the BoE kept **further tightening conditional** to evidence of more persistent inflation. About recent financial system developments, the BoE said it'll consider its potential impact (on credit conditions) in the new forecasts at that May meeting. Money markets bet on one more 25 bps move in Q2 and start pricing in a first rate cut by the end of the year. Short UK gilt yields gapped about 10 bps lower at the open in a catch-up move with the US with losses building to 20 bps later on. **Safe haven bids intensified during US dealings**, where recessionary and financial stability concerns flared up again. US yields dropped another 10 bps in the 2y-3y segment while adding 4.6 bps at the long end (30y). German Bunds outperformed vs Treasuries, losing 7.2 (30y) - 18.1 (2y) bps despite more hawkish ECB rhetoric. It called off EUR/USD's attempt to settle above 1.09 with a close at 1.0831 instead. Sterling showed some volatility around the BoE decision but closed higher in the end, helped by a late-session sentiment rebound which also kept US equities off intraday lows. EUR/GBP fell from 0.8849 to 0.8816.
- **Japanese inflation numbers for February and March PMIs** grab the most attention this morning (see below). Asian-Pacific region trade mixed. Core bonds grind higher, pushing US cash yields 2.7-4.3 bps down. Combined with solid Japanese data, the yen receives a little boost. USD/JPY tested the 130 big figure, EUR/JPY falls to 141.
- Japanese PMIs were just the start of today's worldwide coverage. All of them (US, UK and Euro Area) last month showed a large upside surprise, suggesting strong(er than feared) economic resilience. For this month, analysts expect a marginal retreat in US and UK business confidence and a stabilization in the Euro Area. **Even in case of an upward surprise** (we don't think the financial ripples to already surface in the March readings), **bond markets are unlikely to react accordingly** in the current environment. The easiest way for core bond yields is down still, especially in the US. This could quickly cap this morning's early but very unconvincing attempt by the dollar to recover a bit from the whammy over the recent days.

News & Views

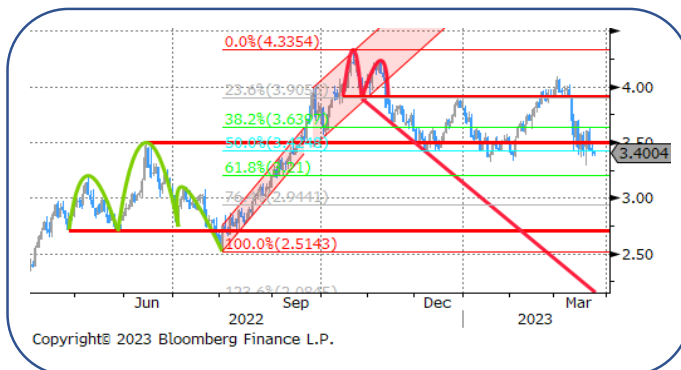
- **Japanese headline inflation slowed as expected from 4.3% Y/Y to 3.3% Y/Y in February.** Core CPI (ex fresh food) slowed from 4.2% Y/Y to 3.1% Y/Y. **Government energy subsidies are fully responsible for the lower readings.** CPI stripping out both fresh food and energy prices **rose further from 3.2% Y/Y to 3.5% Y/Y, the highest level since 1981 and outpacing forecasts (3.4% Y/Y)!** The data for once don't add pressure on new BoJ-governor Ueda to take next steps in the policy normalisation process. **The recent market turmoil put the spotlight away from the lagging BoJ.** Japanese March PMI printed stronger with the composite measure rising from 51.1 to 51.9. Both manufacturing (48.6 from 47.7) and services (54.2 from 54) contributed positively. The Japanese yen is one of the star performers this month with USD/JPY this morning testing the 130 big figure.
- **Hungarian PM Orban's envoy to the EU, Janos Boka, said that the EU's executive arm will early next week respond to Hungarian proposals on judicial reforms** which should help unblock €28bn in recovery funds frozen over a rule of law dispute. "We are very close to an agreement and don't see any open political questions remaining." **In a separate dispute, the EU is withholding €22bn of funds over violations against the EU Charter of Fundamental Rights.** On this issue, Boka said that **work wasn't progressing as fast as one would hope.** The forint enjoyed a nice comeback over the past days as core bond yields nosedived. EUR/HUF returned from a failed test of 400 towards the low 380-area currently.

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. 1.92% serves as a first support.



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 tank. Longer tenors, including the 10-yr, suffer from recessionary fears. Support at 3.5% is under pressure. A break lower may lead to follow-up losses to 3.20%.



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 weigh heavily on the dollar. After surpassing 1.0735 resistance, EUR/USD has little obstacles to conquer on its way back to the 1.1033 current 2023 high.



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

Friday, 24 March		Consensus	Previous
US			
13:30	Durable Goods Orders (Feb P)	0.20%	-4.50%
13:30	Durables Ex Transportation (Feb P)	0.20%	0.80%
13:30	Cap Goods Orders Nondef Ex Air (Feb P)	-0.20%	0.80%
13:30	Cap Goods Ship Nondef Ex Air (Feb P)	0.20%	1.10%
14:45	S&P Global US Manufacturing PMI (Mar P)	47.0	47.3
14:45	S&P Global US Services PMI (Mar P)	50.3	50.6
14:45	S&P Global US Composite PMI (Mar P)	49.5	50.1
16:00	Kansas City Fed Services Activity (Mar)	—	1
Canada			
13:30	Retail Sales MoM (Jan)	0.70%	0.50%
13:30	Retail Sales Ex Auto MoM (Jan)	0.60%	-0.60%
Japan			
00:30	Natl CPI YoY (Feb)	3.30%A	4.30%
00:30	Natl CPI Ex Fresh Food YoY (Feb)	3.10%A	4.20%
00:30	Natl CPI Ex Fresh Food, Energy YoY (Feb)	3.50%A	3.20%
01:30	Jibun Bank Japan PMI Composite (Mar P)	51.9A	51.1
01:30	Jibun Bank Japan PMI Mfg (Mar P)	48.6A	47.7
01:30	Jibun Bank Japan PMI Services (Mar P)	54.2A	54
UK			
01:01	GfK Consumer Confidence (Mar)	-36A	-38
08:00	Retail Sales Inc Auto Fuel MoM/YoY (Feb)	0.20%/-4.70%	0.50%/-5.10%
08:00	Retail Sales Ex Auto Fuel MoM (Feb)	0.20%/-4.80%	0.40%/-5.30%
10:30	S&P Global/CIPS UK Manufacturing PMI (Mar P)	49.7	49.3
10:30	S&P Global/CIPS UK Services PMI (Mar P)	53.0	53.5
10:30	S&P Global/CIPS UK Composite PMI (Mar P)	52.7	53.1
EMU			
10:00	S&P Global Eurozone Manufacturing PMI (Mar P)	49.0	48.5
10:00	S&P Global Eurozone Composite PMI (Mar P)	52.0	52
10:00	S&P Global Eurozone Services PMI (Mar P)	52.5	52.7
Germany			
09:30	S&P Global/BME Germany Manufacturing PMI (Mar P)	47.0	46.3
09:30	S&P Global Germany Services PMI (Mar P)	51.0	50.9
09:30	S&P Global Germany Composite PMI (Mar P)	51.0	50.7
France			
09:15	S&P Global France Composite PMI (Mar P)	51.5	51.7
09:15	S&P Global France Manufacturing PMI (Mar P)	48.0	47.4
09:15	S&P Global France Services PMI (Mar P)	52.5	53.1
Belgium			
15:00	Business Confidence (Mar)	—	-12.8
Events			
02:35	ECB's De Cos Speaks in Hong Kong		
10:15	ECB's Nagel Speaks		
14:30	Fed's Bullard Speaks at Greater St. Louis Inc. Event		
17:00	BOE's Catherine Mann speaks on panel		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.43	-0.01		US	3.83	-0.10	DOW	32105.25	75.14
DE	2.20	-0.13		DE	2.53	-0.18	NASDAQ	11787.4	117.44
BE	2.90	-0.13		BE	2.59	-0.16	NIKKEI	27385.25	-34.36
UK	3.36	-0.09		UK	3.30	-0.20	DAX	15210.39	-5.80
JP	0.30	-0.02		JP	-0.05	0.00	DJ euro-50	4207.14	11.44
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.14	3.81	3.89	Ester	2.8990	0.0010			
5y	2.98	3.53	3.61	Euribor-1	2.9020	0.0000	Libor-1	4.7970	0.0000
10y	2.90	3.43	3.32	Euribor-3	2.9900	-0.0120	Libor-3	5.0800	0.0000
				Euribor-6	3.2900	0.0760	Libor-6	5.1151	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0831	-0.0025		EUR/JPY	141.73	-0.94	CRB	257.78	-0.87
USD/JPY	130.85	-0.59		EUR/GBP	0.8816	-0.0033	Gold	2013.30	46.70
GBP/USD	1.2287	0.0019		EUR/CHF	0.9928	-0.0032	Brent	75.91	-0.78
AUD/USD	0.6684	-0.0001		EUR/SEK	11.1903	-0.0041			
USD/CAD	1.3715	-0.0016		EUR/NOK	11.2532	-0.1074			

Contacts

KBC Economics – Markets Brussels		Global Sales Force	
Mathias Van der Jeugt	+32 2 417 51 94	Corporate Desk(Brussels)	+32 2 417 45 82
Peter Wuyts	+32 2 417 32 35	Institutional Desk(Brussels)	+32 2 417 46 25
Mathias Janssens	+32 2 417 51 95	CBC Desk (Brussels)	+32 2 547 19 19
		France	+32 2 417 32 65
		London	+44 207 256 4848
		Singapore	+65 533 34 10
		Prague	+420 2 6135 3535
CSOB Economics – Markets Prague			
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		Bratislava	
Marek Gabris	+421 2 5966 8809		+421 2 5966 8820
K&H Economics – Markets Budapest		Budapest	
David Nemeth	+36 1 328 9989		+36 1 328 99 85

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