

Sunrise



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Monday, 27 March 2023

## KBC Sunrise Market Commentary

### Markets

- On Friday, **market fears on financial stability focused on Europe**. Deutsche Bank was in the eye of the storm after it announced to call a Tier 2 subordinated bond. While this in se shouldn't be a source of concern, it apparently added to market nervousness. **European equities nosedived and core bonds again received a strong safe have bid**. The financial stability concerns overshadowed the macro-economic narrative **as European PMI printed stronger than expected**. The S&P global EMU composite PMI for March unexpectedly jumped from 52.0 to 54.1 (unchanged expected). **Strength especially came from the services sector** (55.6 from 52.7). The picture of the manufacturing sector remains much less brilliant (47.1 from 48.5). Even so, the global index suggests **solid EMU growth in the first quarter, with ongoing job growth while price indices also remained at elevated levels**. For now, the report only confirms the ECB's assessment, that it will probably have to do more work to bring inflation lower in a sustainable way. Later in the session, **US PMI's showed a similar picture** with the composite PMI rising from 50.1 to 53.8. The move was supported by both an improvement in the manufacturing sector (49.3 from 47.3) and even more in the **services sector** (53.8 from 50.6). **Sentiment gradually improved in the US session after the publication of the US PMI's**. Even so, at the end of the day **core yields still closed the session in red**. US yields declined between 6.6 bps (2-y) and 3.2 bps (5-y). Despite recent financial turmoil, **Fed Bullard** still indicated that he sees the peak rate in the US policy rate at 5.50%/5.75%. Fed's Bostic also defended the Fed's latest rate hike as inflation remains too high. German yields dropped another 13.3 bps (2-y) to 3.3 bps (30-y). In both cases, yields closed well off the intra-day lows. **A similar pattern developed in equity markets**. The Eurostoxx 50 closed the session with a loss of 1.82%. US indices managed to reverse a negative open to close with gains of about 0.5%. **The financial stability focus turning to Europe this time also hit the euro**. EUR/USD dropped sharply early in European dealings. In the end EUR/USD still closed just above 1.0750. DXY jumped from the 102.50 area to close at 103.12. **The yen** slightly outperformed the dollar (USD/JPY close 130.7). Sterling again show relative resilience despite the risk-off. EUR/GBP closed near 0.88.
- This morning, Asian (equity) markets show no clear directional trend. Fed Kashkari during the weekend indicated that recent stress might raise the risk of US recession. **Even so, US yields regain a few bps this morning**. The USD DXY index trades little changed just north of 103. Later today, the eco calendar is rather thin. The **German IFO business climate** is expected to hold little changed near 91.0. Even in case of a positive surprise, it probably won't be a game-changer. Key question is whether/when concerns on financial stability will gradually subside. Even if no new 'individual cases' come in the spotlights, **the process of restoring confidence will take quite some time**. The US 2-y yield returning above the 4.0% barrier in a sustainable way could be a first indication that stress is easing. In this respect, also keep an eye at a \$42bn sale of US 2-y Treasuries after recent sharp decline in short term yields. After the USD rebound end last week, **the picture between the euro and the dollar now looks again more balanced**. Some further range trading in the 1.05/1.093 area might be on the cards.

### News & Views

- The IMF's managing director Georgieva warned of increased risks to financial stability and said there's vigilance needed following the recent turmoil**. "The rapid transition from a prolonged period of low interest rates to much higher rates necessary to fight inflation inevitably generates stresses and vulnerabilities". Policymakers have acted decisively and the provision of dollar liquidity has been enhanced. That eased market stress to some extent but uncertainty remains high, Georgieva added. The huge amount of monetary tightening combined with Ukraine war and "scarring" from the pandemic **according to the IMF is expected to slow global economic growth below 3%**.
- According to **chairman of the Office for Budget Responsibility Richard Hughes the UK economy is about 4% smaller because of the Brexit**. He said it's a shock of the order of magnitude like the one coming from the pandemic and the energy crisis. The OBR earlier this month estimated that the volume of UK imports and exports will be 15% lower than if the UK had remained in the EU, with the full effects visible after 15 years. **Hughes identified other factors weighing on economic growth too, including declining productivity, a shrinking workforce and stagnant investment**. The UK is the only development economy that has not yet fully recovered to pre-pandemic GDP levels.

# 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.



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## 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 at 3.5% has been broken, with 3.20% a next potential reference.



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## 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.



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## 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 ...).



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# Calendar & Table

Monday, 27 March		Consensus	Previous
<b>US</b>			
16:30	Dallas Fed Manf. Activity (Mar)	-10.0	-13.5
<b>Japan</b>			
01:50	PPI Services YoY (Feb)	1.80%A	1.60%
<b>UK</b>			
12:00	CBI Total Dist. Reported Sales (Mar)	--	-12
12:00	CBI Retailing Reported Sales (Mar)	-3	2
<b>EMU</b>			
10:00	M3 Money Supply YoY (Feb)	3.20%	3.50%
<b>Germany</b>			
10:00	IFO Business Climate (Mar)	91.0	91.1
10:00	IFO Current Assessment (Mar)	94.1	93.9
10:00	IFO Expectations (Mar)	88.3	88.5
<b>Events</b>			
10:30	Bundesbank Chief Nagel Speaks in Karlsruhe		
15:40	ECB's Elderson Speaks in Amsterdam		
16:00	ECB's Centeno Speaks at OMFIF Event		
17:00	ECB's Schnabel Speaks		
19:00	BOE's Bailey speaks		
19:00	U.S. To Sell USD42 Bln 2-Year Notes		
23:00	Fed's Jefferson Discusses Monetary Policy		

10-year	Close	-1d		2-year	Close	-1d		Stocks	Close	-1d
US	3,38	-0,05		US	3,77	-0,07		DOW	32237,53	132,28
DE	2,13	-0,07		DE	2,39	-0,13		NASDAQ	11823,96	36,56
BE	2,83	-0,07		BE	2,47	-0,12		NIKKEI	27506,77	121,52
UK	3,28	-0,08		UK	3,21	-0,08		DAX	14957,23	-253,16
JP	0,29	-0,02		JP	-0,07	-0,01		DJ euro-50	4130,62	-76,52
IRS	EUR	USD	GBP	EUR	-1d	-2d		USD	-1d	-2d
3y	3,05	3,77	3,82	Ester	2,8990	0,0000		Libor-1	4,8306	-0,0147
5y	2,91	3,50	3,56	Euribor-1	2,9280	0,0260		Libor-3	5,1014	-0,0323
10y	2,87	3,38	3,26	Euribor-3	3,0250	0,0350		Libor-6	4,9873	-0,1554
Currencies	Close	-1d		Currencies	Close	-1d		Commodities	Close	-1d
EUR/USD	1,0760	-0,0071		EUR/JPY	140,66	-1,07		CRB	258,49	0,71
USD/JPY	130,73	-0,12		EUR/GBP	0,8797	-0,0019		Gold	2001,70	-11,60
GBP/USD	1,2233	-0,0054		EUR/CHF	0,9899	-0,0029		Brent	74,99	-0,92
AUD/USD	0,6645	-0,0039		EUR/SEK	11,2222	0,0319				
USD/CAD	1,3744	0,0029		EUR/NOK	11,281	0,0278				

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