

# Sunrise



Tuesday, 28 February 2023

## KBC Sunrise Market Commentary

### Markets

- The EU and the UK struck a deal **to reform the Northern Irish Protocol**. Dubbed the **Windsor Framework**, the agreement entails a so-called **green lane** in the Irish Sea with significantly reduced checks for goods coming from the UK mainland and destined to stay in Northern Ireland. Goods continuing into Ireland, part of the European single market, need to follow a **red lane**. The pound profited though strengthened already in the run-up on rumours that an announcement was coming. EUR/GBP fell from 0.883 to 0.8795. In core bond markets, **US Treasuries and German Bunds parted ways**. While both headed south initially, UST's found a bid going into US dealings, leading to yield losses of -3.1 to -4.7 bps in the 2y-10y bucket. That's despite some strong US data (core capital goods orders & shipments and pending home sales). **German yields across the curve meanwhile all hit new cycle highs** with gains ranging from 3.3 bps to 7.5 bps with the 10y yield heavily testing critical resistance at 2.56% (62% recovery on the 2007-2020 decline). The same tenor in swap yields is hitting an important reference at around 3.2%. That didn't stop European equities from staging a forceful comeback after Friday's sell-off. The Euro Stoxx 50 rebounded at some point 2% to close with gains of 1.66%. Wall Street rose 1.5% only to pare gains as the US session evolved. The most important indices eventually finished between 0.22%-0.63% higher. The dollar was pressured, lifting EUR/USD back above 1.06 and DXY below 105.
- A Reuters interview with ECB chief economist Lane published this morning grabs some headlines in an otherwise uneventful Asian session. The Irishman said forward-looking indicators suggest inflation will slow down, but that the case for a 50 bps rate hike in March remains solid. **He added that when rates hit their plateau, they will probably stay there for "quite a long-lasting period, a fair number of quarters"**. Barring a few exceptions, regional stocks eke out a slight gain. The dollar appreciates with EUR/USD struggling to keep the 1.06. US cash yields advance a few bps.
- Today's economic calendar contains some US regional business confidence indicators and Conference Board consumer confidence for February. The latter is expected to improve slightly from 107.1 to 108.5. **EU member states France and Spain publish February inflation numbers**, seen at 7% (vs. 7% in January) and 5.7% (vs 5.9%) respectively. As a **precursor for the European number** due on Thursday, they will set the tone on markets in early European dealings. With European yields at important technical crossroads, just imagine what an upward inflation surprise could do. EUR/USD's daily fate depends on whether a sustained core bond yield advance spills over to equity markets (eg. Friday's market moves). Support in the pair is located at 1.0461/1.0479. For sterling we think the NI protocol boost will be short-lived. The currency wasn't really bothered with the issue anyway while there are more important things at hand in mainland UK, including a cost-of-living crisis.

### News & Views

- **Australia's current account surplus increased by \$13.4bn to \$14.1bn in Q4 2022**. The increase is mainly due to the second highest on **record trade surplus** of \$40.9bn. **Exports of goods and services increased 3%**, driven by rises in metal ores and minerals as constraints eased and travel services as the number of international students and visitors arriving in Australia increased. **Imports of goods and services declined 3.1%**. The rise in the trade surplus of \$6.1bn is expected to contribute 1.1 percentage point to Q4 GDP growth. The Australian net primary income deficit (2nd component of current account balance) declined from a record \$30.4bn in Q3 to \$26.4bn in Q4. It remains historically high though due to high operating profits on direct investment off the back of continued strength in commodity prices, according to the Australian Bureau of Statistics. In a separate release, **Australian retail sales rose slightly more than expected in January (1.9% M/M)**. AUD/USD this month lost out against an overall strong dollar, with the pair falling from 0.7150 towards 0.67. Next support kicks in around 0.6547.
- **Polish President Duda yesterday accused the EU of using various legal loopholes and questionable interpretations just to show that it can influence the legal order of a member state**. The aggressive rhetoric follows the President's decision **not to sign into law the government's plan to change Poland's court system to unlock €35bn of EU funds**. Instead, Duda sent the legislation to Poland's top court – part of the EU's complaints – for a review. The maneuvering suggests that **the stalemate might only be solved after Polish elections in October**.

# Graphs



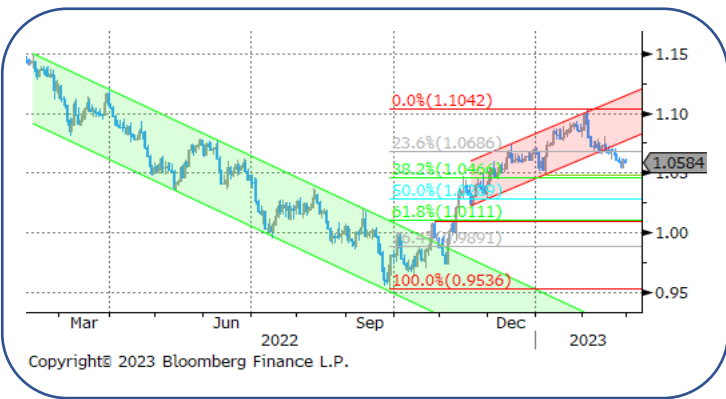
## GE 10y yield

The ECB flagged another 50 bps rate hike in March, accompanied by QT. **This clear prioritization to combat inflation initially failed to push the 10-y Bund to the cycle top just north of 2.50%.** A strong batch of (US) eco data later served as a global wake-up call. Support at 1.96% survived with a follow-up countermove returning close to the cycle peak. We stick to our view that the depo rate will peak at >3.50%, implying yields have further room to run.



## US 10y yield

December dots confirmed the Fed's intention to raise the policy rate north of 5% and to keep it above neutral over the policy horizon. **Markets refused to follow this guidance up until the wake-up call coming from this month's eco data.** The US 10-yr yield is currently **testing final resistance ahead of the 2022 cycle top (4.33%) at 3.9%.**



## EUR/USD

USD lost momentum in Q4. **EUR/USD left a downtrend channel improving the technical picture. The euro received support from the ECB's hawkish twist, lower energy prices and a risk-on sentiment.** The pair tested 1.10, but a break failed with the dollar regaining momentum post strong US January data. EUR/USD dropped below support at 1.0735/1.0656, opening the way to the 1.0484 2023 low.



## EUR/GBP

The BoE raised its policy rate by 50 bps in February, but suggested that rates will peak after a final move in March. The UK central bank that way causes a yield disadvantage for sterling, which already has weak structural cards (e.g. weaker growth prospects, twin deficits, long term brexit consequences ...). **EUR/GBP for now avoided a return above 0.90 as UK eco data suggest that the BoE has more ground to cover as well.**

# Calendar & Table

Tuesday, 28 February		Consensus	Previous
<b>US</b>			
14:30	Advance Goods Trade Balance (Jan)	-\$91.0b	-\$89.7bR
15:00	FHFA House Price Index MoM (Dec)	-0.20%	-0.10%
15:00	S&P CoreLogic CS 20-City MoM SA/YoY (Dec)	-0.40%/4.75%	-0.54%/6.77%
15:45	MNI Chicago PMI (Feb)	45.5	44.3
16:00	<b>Conf. Board Consumer Confidence (Feb)</b>	<b>108.5</b>	<b>107.1</b>
16:00	Conf. Board Present Situation (Feb)	--	150.9
16:00	Conf. Board Expectations (Feb)	--	77.8
16:00	Richmond Fed Manufact. Index (Feb)	--	-11
16:00	Richmond Fed Business Conditions (Feb)	--	-10
16:30	Dallas Fed Services Activity (Feb)	--	-15
<b>Canada</b>			
14:30	<b>Quarterly GDP Annualized (4Q)</b>	<b>1.60%</b>	<b>2.90%</b>
<b>Japan</b>			
00:50	Industrial Production MoM/YoY (Jan P)	-4.60%A/-2.30%A	0.30%/-2.40%
00:50	Retail Sales MoM/YoY (Jan)	1.90%A/5.30%A	1.10%/3.80%
06:00	Housing Starts YoY (Jan)	6.60%A	-1.70%
<b>UK</b>			
01:01	Lloyds Business Barometer (Feb)	21	22
<b>France</b>			
08:45	<b>CPI EU Harmonized MoM/YoY (Feb P)</b>	<b>1.00%/7.00%</b>	<b>0.40%/7.00%</b>
08:45	Consumer Spending MoM/YoY (Jan)	0.40/-4.70%	-1.30%/-5.60%
<b>Hungary</b>			
14:00	<b>Central Bank Rate Decision</b>	<b>13.00%</b>	<b>13.00%</b>
<b>Spain</b>			
09:00	<b>CPI EU Harmonised MoM/YoY (Feb P)</b>	<b>0.90%/5.70%</b>	<b>-0.40%/5.90%</b>
<b>Sweden</b>			
08:00	<b>GDP QoQ/WDA YoY (4Q)</b>	<b>-0.60%/0.10%</b>	<b>0.60%/2.50%</b>
<b>Events</b>			
13:15	<b>BOE's Huw Pill speaks</b>		
13:30	<b>ECB's Vujcic Speaks</b>		
13:30	<b>BOE's Catherine Mann speaks</b>		
20:30	<b>Fed's Goolsbee Speaks at Community College</b>		

10-year	Close	-1d		2-year	Close	-1d	Stocks	Close	-1d
US	3.91	-0.03		US	4.78	-0.04	DOW	32889.09	72.17
DE	2.58	0.04		DE	3.08	0.05	NASDAQ	11466.98	72.04
BE	3.17	0.03		BE	3.14	0.03	NIKKEI	27445.56	21.60
UK	3.81	0.15		UK	3.67	-0.36	DAX	15381.43	171.69
JP	0.50	0.00		JP	-0.03	-0.01	DJ euro-50	4248.01	69.19
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	-1d	-2d
3y	3.55	4.71	4.35	Ester	2.3980	0.0000			
5y	3.32	4.25	4.06	Euribor-1	2.4220	-0.0070	Libor-1	4.6349	0.0000
10y	3.19	3.93	3.75	Euribor-3	2.7160	0.0180	Libor-3	4.9534	0.0000
				Euribor-6	3.2420	0.0090	Libor-6	5.2351	0.0000
Currencies	Close	-1d		Currencies	Close	-1d	Commodities	Close	-1d
EUR/USD	1.0609	0.0061		EUR/JPY	144.48	0.64	CRB	268.60	1.45
USD/JPY	136.19	-0.29		EUR/GBP	0.8795	-0.0037	Gold	1824.90	7.80
GBP/USD	1.2064	0.0120		EUR/CHF	0.9929	0.0007	Brent	82.45	-0.71
AUD/USD	0.6739	0.0013		EUR/SEK	11.0208	-0.0633			
USD/CAD	1.3575	-0.0036		EUR/NOK	10.971	0.0145			

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