Wednesday, 15 March 2023

KBC Sunrise Market Commentary

Markets

- Volatility on especially rate markets remained high yesterday. **Markets in the end erased part of the fallout of the SVB and Signature Bank collapse & government deposit bailout.** The jury is still out on whether these two regional bank failures are "isolated" events or whether larger systemic risks to financial stability loom. It puts the Fed in difficult position next week when it gathers following two months of hot labour market data and stubbornly high inflation readings. Yesterday's core CPI printed marginally stronger at 0.5% M/M and 5.5% Y/Y with core services inflation showing no signs of slowing. **The data argue in favour of accelerating tightening to 50 bps, but the regional banking crisis pleads for sticking to January's 25 bps hike.** The latter is the more likely and discounted scenario. Providing guidance for the rest of the year via the Summary of Economic Projections will be a tough call for Fed governors given the recent hiccup. Ceteris paribus, we think the Fed will use its regulatory macroprudential framework to map financial stability risks (expected May 1; ahead of May 3 policy meeting) **and keep its eyes on the price(s). US money markets reverted to discounting a too dovish policy path going forward (<5% policy rate peak with 50 bps rate cut discounted by end 2023) in this scenario.** US yields yesterday closed the session 9.2 bps (30-yr) to 27.4 bps (2-yr) higher with intraday moves even larger. Compared to last Wednesday's close, US yields are still 30 bps lower at the 10-yr tenor and 80 bps at the 2-yr. German yields added 13.4 bps (30-yr) to 20.2 bps (2-yr) yesterday. A similar weekly comparison shows them being 23 bps lower on the 10-yr and 45 bps at the 2-yr. **We expect the ECB to stick to its guidance of a 50 bps rate hike tomorrow (currently not completely discounted) while holding back on strong guidance for the May policy meeting.** As for the US, **European money markets are currently positioned way too soft with a policy rate peak of 3.50% by autumn.** US equity markets rebounded 1% to (Dow) to 2% (Nasdaq) but came off intraday highs after the collision between a Russian fighter jet and a US drone. FX markets stomached the whole banking crisis best as again witnessed in yesterday's rangebound EUR/USD-session between roughly 1.07 and 1.0750. **There are more signs of cautious relief this morning** with the front end of the US yield curve underperforming. Asian stock markets gain around 1.5%. Today's eco calendar contains US PPI data, retail sales and Empire Manufacturing Survey. Markets are unlikely to be tempted to react on them. **They'll first want more evidence that the regional US banking issues don't ask for another victim. Yesterday's market action in this respect was constructive.** UK markets will look to Chancellor Hunt's annual budget release. EUR/GBP yesterday tried to find a way below 0.88 on strong labour market data, but failed to do so.

News & Views

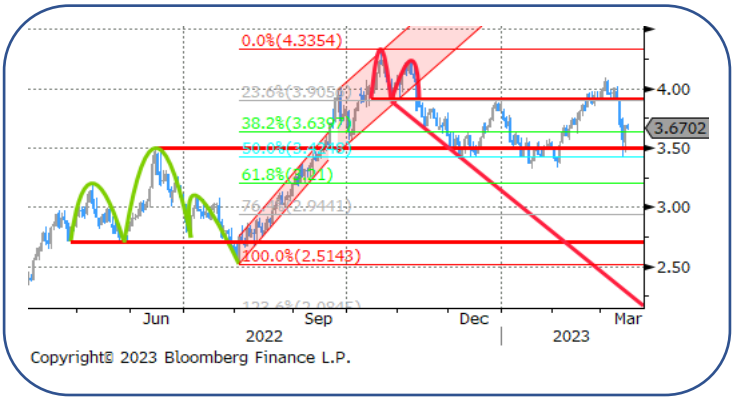
- **New Zealand's annual current account deficit amounted to NZD 33,8bn in 2022.** The current account deficit ratio jumped **from 6.0% of GDP in 2021 to 8.9%, the highest deficit ratio since start of the series in 1988.** The rise in the deficit was mainly due to **a NZD 10bn widening of the goods and services balance** and a NZD 2.7% rise of the income deficit. Imports of goods and services rose NZD 23bn (25.8%). Exports of goods and services rose only NZD 13,1bn (16.8%). *"Since New Zealand's borders opened more New Zealanders have been travelling overseas. The spending on both air transport and travel contributed to the rise in services imports for the year to December 2022,"* institutional sectors senior manager Paul Pascoe said. In a comment on Bloomberg, S&P global was quoted that **the New Zealand Credit rating could come under pressure** as the deficit was much wider than the agency expected. S&P currently has foreign currency rating of AA+ and a AAA local currency rating for the country. The kiwi dollar eased slightly this morning to NZD/USD 0.622

- A series of February **China eco data** published this morning **showed a mixed picture on the pace of the recovery after the country abruptly changed its Covid-19 approach end last year. Retail sales** in the first two months of the year **were 3.5% higher compared to the same month last year** (was minus 1.8% in Dec), broadly as expected. However, **industrial production gaining 2.6% Y/Y lagged expectations.** Fixed assets investment accelerated to 5.5% Y/Y. Residential property investment still printed negative (-5.7%) compared to the same month last year. The rise in fixed asset investment suggests that **growth might remain dependent on persistent government support.** The yuan this morning weakened slightly against a dollar that was marginally stronger overnight (USD/CNY 6.8875).

Graphs

GE 10y yield

The ECB flagged another 50 bps rate hike in March, accompanied by QT. **This clear prioritization to combat inflation initially eventually pushed the 10-y Bund to a new cycle top north of 2.50%.** The collapse of two US regional bank raised questions on systemic risks, putting in doubt central banks' future tightening plans and triggering a flight to safe haven assets. We expect the ECB to stick to its plans, while abstaining from new guidance as the banking story develops.



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 moved above 4% before the regional bank implosion. Support at 3.5% survived in the aftermath. Stubborn inflation and financial stability risks hang in the balance at next week's FOMC meeting.

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 dollar regaining momentum on strong US eco data (Jan/Feb). The impact on FX markets from the SVB and Signature Bank collapse/bailout is much smaller than on FI or equity markets.

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

Wednesday, 15 March		Consensus	Previous
US			
13:30	PPI Final Demand MoM/YoY (Feb)	0.30%/5.40%	0.70%/6.00%
13:30	PPI Ex Food and Energy MoM/YoY (Feb)	0.40%/5.20%	0.50%/5.40%
13:30	PPI Ex Food, Energy, Trade MoM/YoY (Feb)	0.30%/4.80%	0.60%/4.50%
13:30	**Empire Manufacturing (Mar)**	**-7.9**	**-5.8**
13:30	**Retail Sales Advance MoM (Feb)**	**0.40%**	**3.00%**
13:30	Retail Sales Ex Auto MoM (Feb)	-0.10%	2.30%
13:30	Retail Sales Ex Auto and Gas (Feb)	-0.20%	2.60%
13:30	**Retail Sales Control Group (Feb)**	**-0.30%**	**1.70%**
15:00	Business Inventories (Jan)	0.00%	0.30%
15:00	NAHB Housing Market Index (Mar)	40	42
EMU			
11:00	Industrial Production SA MoM/WDA YoY (Jan)	0.30%/0.30%	-1.10%/-1.70%
China			
03:00	**Industrial Production YTD YoY (Feb)**	**2.40%A**	**3.60%**
03:00	**Retail Sales YTD YoY (Feb)**	**3.50%A**	**-0.20%**
03:00	Fixed Assets Ex Rural YTD YoY (Feb)	5.50%A	5.10%
03:00	Property Investment YTD YoY (Feb)	-5.70%A	-10.00%
03:00	Residential Property Sales YTD YoY (Feb)	3.50%A	-28.30%
03:00	Surveyed Jobless Rate (Feb)	5.60%A	5.50%
Sweden			
08:00	**CPI MoM/YoY (Feb)**	**0.90%/11.70%**	**-1.10%/11.70%**
08:00	CPIF MoM/YoY (Feb)	0.70%/9.20%	-1.30%/9.30%
08:00	CPIF Excl. Energy MoM/YoY (Feb)	1.00%/8.70%	0.40%/8.70%
Events			
13:30	**UK Chancellor of the Exchequer Jeremy Hunt's annual budget**		

10-year	Close	-1d
US	3.69	0.12
DE	2.42	0.16
BE	3.06	0.15
UK	3.49	0.12
JP	0.33	0.06

2-year	Close	-1d
US	4.25	0.27
DE	2.89	0.20
BE	3.03	0.20
UK	3.48	0.12
JP	-0.05	-0.01

Stocks	Close	-1d
DOW	32155.4	336.26
NASDAQ	11428.15	239.31
NIKKEI	27229.48	7.44
DAX	15232.83	273.36
DJ euro-50	4179.47	82.93

IRS	EUR	USD	GBP
3y	3.42	4.25	4.12
5y	3.20	3.94	3.85
10y	3.04	3.74	3.50

EUR	-1d	-2d
Ester	2.4010	0.0000
Euribor-1	2.6010	-0.0450
Euribor-3	2.7530	-0.2040
Euribor-6	3.0350	-0.3400

USD	-1d	-2d
Libor-1	4.6844	0.0000
Libor-3	4.8663	0.0000
Libor-6	5.0507	0.0000

Currencies	Close	-1d
EUR/USD	1.0733	0.0002
USD/JPY	134.22	1.01
GBP/USD	1.2158	-0.0025
AUD/USD	0.6682	0.0014
USD/CAD	1.3686	-0.0045

Currencies	Close	-1d
EUR/JPY	144.05	1.09
EUR/GBP	0.8828	0.0020
EUR/CHF	0.9812	0.0025
EUR/SEK	11.238	-0.1340
EUR/NOK	11.3107	-0.0110

Commodities	Close	-1d
CRB	261.08	-3.59
Gold	1910.90	-5.60
Brent	77.45	-3.32

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
CSOB Economics – Markets Prague		**Prague**	+420 2 6135 3535
Jan Cermak	+420 2 6135 3578		
Jan Bures	+420 2 6135 3574		
Petr Baca	+420 2 6135 3570		
CSOB Economics – Markets Bratislava		**Bratislava**	+421 2 5966 8820
Marek Gabris	+421 2 5966 8809		
K&H Economics – Markets Budapest		**Budapest**	+36 1 328 99 85
David Nemeth	+36 1 328 9989		

Discover more insights at www.kbceconomics.be