Daily Update

Your daily market news, moves and outlook

SEASPRAY FINANCIAL

Wealth & Investment Management

Markets Outlook

Tuesday, 14th of March

Equities: European indices are set to stay under some pressure today as SVB Financial's collapse remains the biggest driver of current volatility. European banks saw their sharpest sell-off in a year on Monday, with the Stoxx600 Banks index moving lower by over 5.8%. Similarly, the S&P 500's financials sector led the sell-off last night on Wall Street, as it traded down by almost 4% to the lowest prices seen since mid-October. US stocks in other sectors initially fell yesterday but closed slightly higher as investors began to bet that the Fed may pause rate hikes and cut sooner than was priced in just last week.

UK stock markets are around half a percent weaker this morning, after the region's Unemployment Rate was in-line with the previous month at 3.7%.

Currencies: There are a number of risk events this week for EUR/USD, namely US inflation and the ECB release. SVB's collapse has taken the wind out of the dollar's sails somewhat, by highlighting the risks associated with higher rates. The latest price action confirms that the pair is much more closely tied to risk sentiment than it is to short-term rate dynamics and differentials. EUR/USD trades at 1.07 on Tuesday.

Rates & fixed income: Shorter duration US yields re-rated sharply lower on Monday, as market participants rapidly priced in a less hawkish Federal Reserve for the months ahead. The US 2yr yield fell by close to 50 basis points during the normal trading session on Monday, bouncing this morning to 4.26%. In terms of Fed rate expectations, markets are now mostly looking for a 25bp rate hike next week, followed by just one more increase to bring the Fed Funds rate to a range of 5.00 - 5.25%. Rate cuts are being priced in from June onwards, with an expected range of around 4.00% this time next year.

Economic data: Clearly, banking issues are at the forefront of traders' minds this week. However, we would also like to draw our readers attention to this afternoon's US inflation data, which could prove crucial in determining the size of next week's Fed hike (if any hike at all).

The US Consumer Price Index (CPI) will be published at 12:30pm Irish time today - with the headline figure estimated to come in at 6.0% y/y for February, and down from January's 6.4%. Stripping out volatile items such as energy and food, Core CPI is expected at 5.5% y/y, down marginally from the previous 5.6%. Both readings are still expected to see relatively high m/m inflation results, at 0.4%.

Key Events to Watch

14/03/2023 - US CPI

15/03/2023 - US PPI

15/03/2023 - US Retail Sales

16/03/2023 - ECB Rate Decision

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	3,855	-0.15%	0.42%
DAX	14,959	-3.04%	7.44%
EuroStoxx	4,096	-3.14%	7.98%
ISEQ	8,103	-3.35%	13.99%
FTSE	7,548	-2.58%	1.30%
Nikkei 225	27,222	-2.19%	4.32%

FX	Value	Daily Change	YTD Change
EUR/USD	1.0729	0.44%	-0.16%
EUR/GBP	0.8805	-0.46%	-0.70%
GBP/USD	1.2181	0.86%	0.59%
USD/CHF	0.9116	-0.84%	-1.24%
USD/JPY	133.18	-1.30%	1.84%
EUR/JPY	142.89	-0.87%	1.68%

Fixed Income	Value	Daily Change
US 10yr	3.545	-0.207
US 2yr	4.016	-0.476
German 10yr	2.285	-0.211
Irish 10yr	2.744	-0.198
UK 10yr	3.414	-0.219
Japanese 10yr	0.244	0.060

Financial News Round Up

ECB Preview

The European Central Bank will issue its second rate decision of 2023 this Thursday at 1:15pm, with the following monetary policy meeting scheduled to take place on May 3rd and 4th. The central bank will "very, very likely" raise interest rates by another half a percentage point at its meeting in Frankfurt, President Christine Lagarde said last week.

However, the sudden collapse of two US lenders over recent days has fueled some concern about the health of the banking system in general, as borrowing costs continue to climb higher. So far, European officials do not seem to see contagion risks. France's Finance Minister Bruno Le Maire yesterday described the situation in the States as "unique", pointing to the lender's ties to the tech sector, which is smaller in Europe.

A 50bp move would be the ECB's sixth consecutive increase, and would leave the Deposit Facility rate at 3.00%, Main Refinancing at 3.50%, and Marginal Lending at 3.75%. We will also be keeping a close eye on the updated economic and interest rate projections that will be published by policymakers on Thursday. Forward guidance around the May meeting will be key this week, any hint at a smaller 25bp hike or a pause in rate increases would be down to new financial risks as opposed to a more constructive view from the ECB on inflation.

Many analysts this week are expecting the bank's Deposit Rate to peak at between 3.50 and 4.00% this summer and remain there for some time. Aside from rate predictions, investors will be closely watching for any changes to the ECB's December projection, which was for inflation to soften to 3.4% in 2024 and 2.3% the following year. Given the plunge seen in European natural gas prices over the past 6 months, we would not be surprised to see the ECB revise downwards their inflation forecasts.

US Banking Sector

Shares in several US regional banks closed sharply lower yesterday despite efforts from the White House to reassure investors that regulators will do "whatever is needed" to protect depositors. Large US banks are reportedly seeing high levels of requests from customers attempting to transfer funds from smaller lenders. Executives have stated that this is the biggest movement of deposits in more than a decade.

According to the Financial Times this morning, JP Morgan Chase, Citigroup, and other sizeable institutions are trying to accommodate new customers, taking extra steps to speed up the normal sign-up process.