Daily Update

Your daily market news, moves and outlook

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Markets Outlook

Wednesday, 22nd of March

Equities: Investor sentiment improved on Tuesday, with the main indices in Europe and the US rising by between 1.0 - 1.8%, led higher by the financials, energy, and consumer sectors. Some concerns over further regional US bank failures have been eased for now, after the US Treasury Secretary guaranteed further support for depositors. The main focus for investors in the US and beyond today will be the Federal Reserve, who are due to release at 6pm Irish time (more on this below). Eurozone indices are trading slightly higher at the time of writing, with volatility expected to remain low until tonight.
British markets are mixed this morning, after the region's stronger-than-expected set of inflation readings. Traders in the UK will likely sit on the fence until after the Bank of England release tomorrow.

Currencies: We could see heightened volatility for the US dollar this evening, but the world's reserve currency will remain fairly muted until then. The main pairs, EUR/USD and GBP/USD, are seeing slight strength, up 0.1% and 0.5%, with sterling's move mostly attributed to the UK CPI result. GBP will be in focus again tomorrow after the BOE meeting, as will the Swiss franc after the SNB release tomorrow morning.

Fixed income: Bonds are mixed but quieter on Wednesday. There is likely significant room to the downside for US yields over the next 6-12 months, especially given the sharp move lower seen in the past week or two. However, sticky core inflation around the developed world could throw a spanner in the works for fixed income markets and for central bankers alike. Longer-duration bonds are still quite vulnerable to medium and long-term inflation risks, in our view.

Economic data: This morning's February UK CPI inflation print disappointingly accelerated to 10.4% y/y - ahead of analysts' expectations and up from the previous 10.1%. While this reading is still below the 11.1% high seen in October, headline inflation is now heading in the wrong direction for the UK and is posing a real dilemma for the Bank of England. This result could push the BOE to hike by 25bp to 4.25%.
The Core CPI figure came in at 6.2% y/y, similarly higher than what was forecasted and also ahead of January's 5.8%.
The biggest upward change came from food and non-alcoholic beverages (18% y/y, up from 16.7%). Electricity, restaurants, and hotels saw a 12.1% increase in prices, the highest since 1991 and up from 10.8%.

Key Events to Watch

22/03/2023 - Fed Rate Decision
23/03/2023 - SNB Rate Decision
23/03/2023 - BOE Rate Decision
23/03/2023 - European & US PMIs

Market Moves

Equity Indices	Value	Daily Change	YTD Change
S&P 500	4,002	1.30%	4.25%
DAX	15,195	1.75%	9.13%
EuroStoxx	4,181	1.51%	10.23%
ISEQ	8,374	2.54%	17.81%
FTSE	7,536	1.79%	1.13%
Nikkei 225	27,466	1.93%	5.26%

FX	Value	Daily Change	YTD Change
EUR/USD	1.0767	0.45%	0.55%
EUR/GBP	0.8813	0.95%	-0.73%
GBP/USD	1.2214	-0.51%	1.33%
USD/CHF	0.9221	-0.73%	0.00%
USD/JPY	132.49	0.90%	1.07%
EUR/JPY	142.67	1.36%	1.63%

Fixed Income	Value	Daily Change
US 10yr	3.608	0.125
US 2yr	4.179	0.214
German 10yr	2.279	0.177
Irish 10yr	2.747	0.142
UK 10yr	3.381	0.075
Japanese 10yr	0.296	0.014

Financial News Round Up

Fed Preview

This evening's will undoubtedly be one of the toughest decisions that this particular set of Federal Reserve voting members will have had to make during their tenure at the central bank. Policymakers will need to balance concerns around persistent inflation with worries about a possible spillover into the US banking sector. Many have called for a pause from the Fed, as we wait and digest the fallout from regional banking woes in the US. We acknowledge that the Fed must still focus on inflation and we would agree with a regular-sized 25bp rate increase.
Market expectations have fluctuated massively over recent weeks, this morning investors are looking for around an 85% chance that the Fed will hike rates by 25bp (to a new range of between 4.75 - 5.00%), with a minority now expecting no change in rates later today. Most are then forecasting for one more increase at the May meeting, followed by a series of rate cuts which would bring the Fed Funds rate back down to around 4.25 - 4.50% by year-end.
We think the US central bank may step back from issuing any forward guidance on their next meeting (May 3rd), given the nature of this rapidly changing banking situation. As is the case at every second monetary policy meeting, the Fed will release updated economic and interest rate projections - market participants will pay close attention to where policymakers view the Fed Funds rate over the next year or two, i.e. the Fed's so-called 'dot plot'. The key take-away tonight may well come from Jerome Powell's post-meeting press conference, where he will of course be questioned about regional US banks as well as the Fed's new short-term emergency liquidity programme.

Yellen's Comments

US Treasury Secretary Janet Yellen came out on Tuesday and pledged further support for small lenders, if needed. In what is an important intervention designed to restore some confidence, Yellen said that guarantees offered to depositors in the failed Silicon Valley Bank could be replicated at other institutions.
The struggling First Republic Bank, who we covered in yesterday's update, saw its share price jump by nearly 30% on Tuesday, in what has been a seriously volatile two-week period for the name. The S&P 500's financials index (ticker symbol XLF) rallied by 2.5% on the back of this announcement, while the Dow Jones US Banks index was up by 3.85% on the session.