

Economy did well in Q1 despite gathering clouds

Banking turbulence may have shaken financial markets in March, but activity in developed markets has beaten expectations throughout 1Q23. What happens to banks, particularly American regional banks, will be decisive for the economy over the next few months.

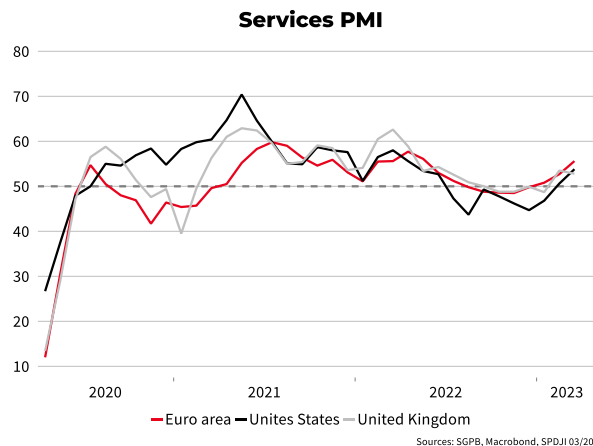
Business surveys show a surge in confidence, especially in services. March data confirmed that services performed strongly across all the big developed economies in the first quarter of the year (PMI surveys, see charts). In manufacturing, surveys continue to flag contraction, but the picture is slightly less grim than at the turn of the year. What is more, the same surveys show that while price pressures on inputs are somewhat easing, they remain high for companies' factory gate prices related to historical average, further evidence that while inflation should continue to decline it will be some time before underlying price pressures reach a level central banks can be happy with.

Household confidence ticks up but remains fragile. In 2022, household confidence on both shores of the Atlantic was shaken by surging inflation and fears about the Ukraine war. We can now see some improvement in Q1 2023. In the United States, the March Conference Board survey, which already captured the start of the banking turmoil, nonetheless surprised on the upside. In that sense, monthly statistics on household income and consumption show incomes still rising while consumption has moderated, resulting in a slight increase in the savings rate.

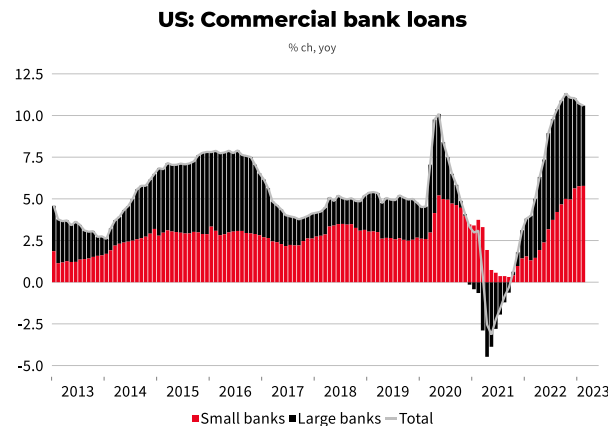
Struggling banks will take their toll, particularly in the United States. Economic activity in the US and in Europe performed positively in 1Q23, encouraging central banks to maintain a hawkish tone just ahead of the recent bank failures. This is clearly reassuring. It confirms our analysis that economies have genuine buffers that will see them through any turbulence and avoiding hence a hard landing. However, the banking sector tensions could have broader consequences for the economy in both short and medium terms. For one thing, these pressures reflect a rise in uncertainty. This will affect decisions by all economic actors and damp down economic activity. For another, current pressures are making banks more cautious when lending to the economy, particularly US regional banks. These banks carry around 40% of the nation's credit on their books, suggesting bank lending is likely to be increasingly constrained in future.



Economic activity remains resilient namely on the back of improving services



Bank financing in the US is likely to decelerate as the result of the regional bank turmoil



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg and Macrobond on the 31/03/2023, publication achievement date. In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document.

OUR MACRO COMMENTS

Events of the week



Inflation is falling in the Eurozone. In Spain, inflation fell significantly from 6% to 3.3% in March, linked to the contraction in energy prices over one year. As for Germany, annual inflation is also slowing but less than expected (7.4% against 7.3% for expectations and 8.7% previously). However, the underlying component is still important.



Household consumption began to show signs of moderation in February. Indeed, deflated by inflation, it fell slightly by 0.1% due to the contraction in the consumption of durable goods. On the income side, they remain slightly expanding, still supported by the increase in labour incomes. All these elements result in a savings rate that increases to 4.6% of disposable income (compared to a pre-Covid average of 8%).

Figures of the week



- Inflation Rate YoY (March)
- Core Inflation Rate YoY (March)



- CB Consumer Confidence (March)
- PCE Price Index (YoY, February)
- Core PCE Price Index (YoY, February)



- Ifo Business Climate (March)
- Inflation Rate (YoY, March)



- NBS Manufacturing PMI (March)

	Actual		Forecast	Previous
	6.9 %	↓	7.1 %	8.5 %
	5.7 %	↑	5.7 %	5.6 %
	104.2	↑	101	103.4
	5 %	↓	5.1 %	5.3 %
	4.6 %	↓	4.7 %	4.7 %
	93.3	↑	90.7	91.1
	7.4 %	↓	7.3 %	8.7 %
	51.9	↓	51.5	52.6

Sources: Macrobond, 31 March 2023

The week ahead

Monday



ISM Manufacturing PMI (March)

Tuesday

Wednesday



Industrial Production (February)



ISM Non-Manufacturing PMI (March)

Thursday



Caixin Composite and Services PMI (March)

Friday



Unemployment Rate (March)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	2,89	2,90	1,91	1,91	-0,58
USD SOFR O/N	4,83	4,55	4,30	4,30	0,27
JPY TONAR O/N	-0,02	-0,01	-0,05	-0,02	0,00
GBP SONIA O/N	4,18	3,93	3,43	3,43	0,69
CHF O/N	0,80	0,80	0,80	0,80	-0,71

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,81	2,86	3,05	2,98	1,09
10Y Bund	2,30	2,34	2,50	2,44	0,66
10Y BTP	4,13	4,18	4,64	4,55	2,14
10Y JGB	0,36	0,24	0,44	0,41	0,21
10Y Bonos	3,33	3,37	3,58	3,51	1,55
10Y Swiss	1,15	1,06	1,51	1,57	0,72
10Y Gilt	3,45	3,46	3,67	3,66	1,67
10Y USNote	3,57	3,48	3,88	3,88	2,35

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,41	3,44	3,08	3,12	1,25
EUR Corporate Baa	4,55	4,53	4,61	4,65	1,85
GBP Corporate Baa	4,57	4,62	4,60	4,59	2,44
USD Corporate Aaa	4,38	4,28	4,65	4,62	3,06
USD Corporate Baa	5,60	5,49	5,72	5,70	3,89
USD EM aggregate	7,49	7,46	7,52	7,52	5,65

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	77,44	2,3%	-7,4%	-9,9%	-31,3%
Or, USD/oz	1 964	-0,2%	8,9%	7,6%	1,6%
Copper, USD/metric ton	9 044	1,9%	6,8%	7,7%	-13,0%
Platinum, USD/oz	963	-2,1%	-5,6%	-9,6%	-2,1%
Palladium, USD/oz	1 422	2,2%	-20,3%	-20,5%	-34,2%
Silver, USD/oz	23,26	4,1%	-2,5%	-2,9%	-6,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,08	0,6%	1,9%	1,5%	-2,5%
EUR/CHF	1,00	-0,1%	1,0%	1,0%	-3,3%
USD/GBP	0,81	-0,7%	-2,2%	-2,2%	7,0%
USD/JPY	132,48	-0,1%	-1,3%	1,3%	8,6%
USD/BRL	5,15	-2,1%	-2,4%	-3,6%	8,1%
USD/CNY	6,89	0,1%	-1,3%	-0,2%	8,5%
USD/RUB	77,27	0,3%	6,5%	5,8%	-8,4%

Equity indices	-1W	-3M	YTD	-12M
Developped markets	2,0%	2,0%	-0,5%	-1,1%
Euro area	0,8%	0,8%	11,1%	9,7%
Germany	0,7%	0,7%	10,1%	9,0%
France	0,8%	0,8%	10,4%	9,0%
United Kingdom	0,0%	0,0%	0,9%	1,5%
Switzerland	1,7%	1,7%	1,4%	2,2%
United States	2,3%	2,3%	6,5%	4,9%
Japan	1,7%	1,7%	4,5%	5,5%
Brazil	1,6%	1,6%	-7,7%	-4,3%
Hong Kong	3,1%	3,1%	1,5%	2,1%
India	-0,4%	-0,4%	-4,8%	-5,2%
China	0,2%	0,2%	3,5%	3,5%

Source: Bloomberg, on 30 March 2023.

-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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