

MARKET UPDATE

23/03/2023

European stock futures mixed, Bank of England in focus after Fed hike

European stock markets are expected to open in a mixed fashion Thursday as investors digest the latest interest rate increase by the U.S. Federal Reserve ahead of a policy-setting meeting by the Bank of England.

European equities are set Thursday to take their lead from the negative close on Wall Street overnight, with the benchmark Dow Jones Industrial Average dropping over 500 points, or 1.6%.

This Fed raised its benchmark interest rate by 25 basis points as widely expected, forecasting at least one more hike this year, and saying it has no intention of cutting interest rates this year.

The central bank also trimmed its outlook for annual GDP, with the banking turmoil likely to have an impact on growth.

However, it was comments from Treasury Secretary Janet Yellen that caused the most damage, as she said the government "is not considering insuring all uninsured bank deposits".

The Bank of England meets later in the session, and is expected to follow the Fed's lead with a 25-basis-point hike, especially after U.K. inflation unexpectedly rose back above 10% in February, data showed on Wednesday.

Swiss regulator gives information about Credit Suisse bond write-down

Switzerland's financial market regulator FINMA on Thursday gave more information to explain the complete write-down of AT1 bonds issued by Credit Suisse after the bank's rescue.

FINMA has instructed Credit Suisse to completely write down its AT1 instruments and to inform the bondholders concerned without delay.

"The AT1 instruments issued by Credit Suisse contractually provide that they will be completely written down in a 'viability event', in particular if extraordinary government support is granted," FINMA said.



Asia FX surges, dollar sinks on Fed's 'dovish hike'

Most Asian currencies rose sharply on Thursday, while the dollar fell to a seven-week low after the Federal Reserve raised interest rates but hinted at a potential pause in its tightening cycle, although rates are likely to remain higher for longer.

China's yuan surged 0.7%, while the South Korean won was the best performer for the day with a 1.3% bounce.

The Indian rupee rose 0.4%, while the Japanese yen jumped 0.5%, with focus also turning to key Japanese consumer inflation data due on Friday.

On the other hand, the dollar retreated further against a basket of currencies in Asian trade, after tumbling 0.7% on Wednesday. The dollar index and dollar index futures fell about 0.2% each on Thursday.

Treasury yields also sank after the Federal Reserve hiked interest rates as expected and changed its language when addressing future interest rate hikes. The central bank no longer sees "ongoing increases" in interest rates as appropriate, and instead said that policy firming "may be appropriate."

The change in language comes in the wake of a banking crisis, which analysts bet will reduce the economic headroom available for the Fed to keep raising rates. The central bank also slightly trimmed its GDP outlook for the year and maintained its median outlook for interest rates at 5.1% for 2023.

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