Morning Report

Friday, 17 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,966	-1.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,247	1.2%	10 yr bond	3.44		0.11		90 day BBSW	3.66	0.00
Japan Nikkei	27,011	-0.8%	3 yr bond	3.00		0.18		2 year bond	2.87	-0.25
China Shanghai	3,383	-1.1%	3 mth bill rate	3.54		0.17		3 year bond	2.86	-0.23
German DAX	14,967	1.6%	SPI 200	7,012.0		27		3 year swap	3.55	0.17
UK FTSE100	7,410	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.33	-0.10
Commodities (close & change)*			TWI	60.6	-	-	60.6	**United States**		
CRB Index	256.6	2.6	AUD/USD	0.6619	0.6668	0.6611	0.6656	3-month T Bill	4.48	-0.06
Gold	1,919.56	0.0	AUD/JPY	88.31	89.09	87.40	89.03	2 year bond	4.16	0.27
Copper	8,498.75	-328.3	AUD/GBP	0.5490	0.5523	0.5481	0.5497	10 year bond	3.58	0.12
Oil (WTI futures)	68.27	0.7	AUD/NZD	1.0699	1.0800	1.0688	1.0741	**Other (10 year yields)**		
Coal (thermal)	179.65	-0.3	AUD/EUR	0.6257	0.6288	0.6247	0.6273	Germany	2.29	0.16
Coal (coking)	352.00	-6.0	AUD/CNH	4.5615	4.6010	4.5579	4.5900	Japan	0.32	-0.01
Iron Ore	128.60	-0.6	USD Index	104.76	104.77	104.20	104.41	UK	3.43	0.10

Data as at 8:00 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Risk sentiment improved overnight on the back of actions taken by central banks to shore up banking systems. In the US, it was reported that banks have borrowed $164.8 billion over the previous week from two of the Fed's backstop facilities. This includes $11.9 billion from the Fed's new emergency facility, the Bank Term Funding Program, which was launched on Sunday.

The European Central Bank (ECB) increased its policy interest rate by 50 basis points, in part to show confidence in the banking system. Reporting suggest that ECB officials feared that anything but the previously signalled 50-basis point hike, could trigger panic among investors.

US and European equities finished higher. Credit Suisse's share price surged after securing a $54 billion lifeline loan from the Swiss central bank.

Bond yields increased sharply, and the US dollar lost ground.

Share Markets: US equities ended the day higher, more than reversing the losses recorded in the previous day. The S&P 500 closed 1.8% higher, the Nasdaq was 2.5% higher, and the Dow Jones closed 1.2% higher.

European equities also bounced back as sentiment improved on the back of actions taken by the ECB. The Euro Stoxx closed 2.0% higher, the UK FTSE 100 closed 0.9% higher and the German DAX finished 1.6% higher.

The ASX 200 closed 1.5% lower yesterday, to be at 6,965.50 – the lowest level since early January. Material stocks led the market lower, with 9 out of 11 sectors recording losses.

Interest Rates: US Treasury yields increased across the curve. The US 2-year treasury yield increased by 27 basis points to 4.16%. The US 10-year treasury yield increased by 12 basis points to 3.58%.

Interest-rate markets are now pricing a 19-basis point hike when the Fed meets next week. The terminal rate is now expected to be around 4.9%.

Australian government bond futures yields are currently trading higher following the lead from the US. The Australian 3-year government bond yield (futures) is up by 18 basis points to 3.0%. The 10-year (futures) yield is up by 11 basis points to 3.44%.

Interest rate markets have priced in a full 25 basis point rate cut by July this year.

Foreign Exchange: The US dollar lost ground against a basket of major currencies. The US dollar index reached an overnight low of 104.20 and is currently sitting at around 104.41.

The direction of the USD index dictated the AUD/USD exchange rate. The Aussie dollar reached an intraday high of 0.6668 before settling at around 0.6656.

Commodities: Commodities were mixed. The West Texas Intermediate (WTI) futures contract was broadly unchanged at USD68.27.

Australia: There was a solid bounce (+64.6k) in the number of jobs created in February – the highest monthly increase since June 2022. The strong read reflects payback for the 27.5k jobs lost over both December and January due to seasonal changes.

Labour supply continues to increase. The working age population increased by 47.7k in February and by 136.6k over the three months to the end of February. These increases led the employment-to-population ratio to remain unchanged in trend terms.

The number of people in the labour force increased by 48k over February. This suggests that the overseas arrivals coming into Australia are getting jobs - the participation rate ticked up to 66.6%.

The unemployment rate declined to 3.5% in February. The number of people unemployed declined by 16.5k over February. This was the first decline after three consecutive monthly increases totalling 37.5k jobs.

Going forward we expect to see a slowing in employment growth but with some ongoing month-to-month volatility. The outcome supports our view that the state of the labour market will be determined by two major trends. Firstly, labour supply will continue to increase on the back of overseas arrivals. Secondly, underlying demand for labour will continue to slow.

This result is unlikely to worry the Reserve Bank. Coupled with financial stability concerns in the US and now European banking systems and evidence of a slowing more broadly in the economy, we believe it takes rate hikes off the table.

New Zealand: Economic activity contracted by 0.6% over the December quarter, after a downward revised 1.7% rise over the September quarter. It marked the first contraction since the March quarter 2022 and was weaker than the 0.2% fall the market was expecting. GDP rose 2.4% in through the year terms to the December quarter.

Japan: Core machinery orders, which excludes shipbuilding and utilities, rose 4.5% over the month of January. This exceeded the 1.4% increase the market was expecting. Non-manufacturing orders increased by 19.3% over the month, with gains recorded in construction, transportation & postal activities, and finance & insurance.

Industrial Production was revised down to a fall of 5.3% over the month of January, from the preliminary estimate of a 4.6% decline over the month. This was the first decline in industrial output since last October and the steepest pace in eight months.

Eurozone: The European Central Bank (ECB) increased its policy interest rate by 50 basis points to 3.0%. The financial disruption over the past week had led to speculation that the ECB could take a wait and see approach, deviating from the guidance of further hikes provided at their last meeting. ECB president, Christine Lagarde, indicated some of the Council members wanted to stop raising rates but the “vast majority” wanted to hike. This would help to show confidence in the banking system. Lagarde said its "not possible to determine" the future path for rates given market turmoil that could hit credit conditions and dampen confidence.

United States: New home construction increased by 9.8% over February to a 1.45 million annualised rate, the fastest in five months. This was stronger than the 1.31 million annualised housing starts the market was expecting. The rise was led by a surge in starts of multifamily projects.

In addition, building permits, a proxy for future construction, climbed 13.8% to an annualised pace of 1.52 million units. This was stronger than the 1.34 million annualised housing permits the market was expecting. Both indicators suggest that housing market may be starting to stabilize.

Initial jobless claims fell to 192k last week, down 20k. Economist expect this number to rise sharply in 2023 as layoffs spread from tech and finance to other sectors.

The Federal Reserve Bank of Philadelphia's Manufacturing Business Outlook Survey's index for current general activity improved in March to -23.2 index points from -24.3 points in February. This was weaker than the -14.5 points the market was expecting. New orders and shipments both declined to their lowest readings since May 2020. Firms were also reporting a decline in employment.

The Federal Reserve Bank of New York Survey's index showed that activity continued to decline modestly in the region’s service sector. The index edged up 3 points but remained negative at -10.1.

The price index for imports declined 0.1% over the month of February. Prices for imports have now decreased each month since June 2022 except for a 0.1% advance in December. Prices for import fuel fell 4.9% in February. Nonfuel import prices rose 0.4% driven by higher prices for consumer goods; foods, feeds, and beverages; capital goods; and automotive vehicles.

Today's key data and events:

AU RBA Gov Speech and Statement to the House of Rep Standing Committee on Economics

US Industrial Production Feb prev 0.0% (12:15am)

US Leading Index Feb prev -0.3% (1:00am)

US UoM Cons Sentiment Mar Prel prev 67.0 (1am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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