

Morning Report

Wednesday, 22 March 2023



| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | |
|-------------------------------|----------|-------|---|--------|-------------|----------------------|---------|---------------------------------|----------------------|-------|
| S&P/ASX 200 | 6,955 | 0.8% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 32,561 | 1.0% | 10 yr bond | | 3.33 | 0.14 | | 90 day BBSW | 3.67 | -0.02 |
| Japan Nikkei | 26,946 | -1.4% | 3 yr bond | | 2.91 | 0.13 | | 2 year bond | 2.84 | -0.02 |
| China Shanghai | 3,413 | 0.6% | 3 mth bill rate | | 3.52 | 0.11 | | 3 year bond | 2.82 | -0.02 |
| German DAX | 15,195 | 1.8% | SPI 200 | | 7,048.0 | 62 | | 3 year swap | 3.46 | 0.00 |
| UK FTSE100 | 7,536 | 1.8% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 3.19 | -0.05 |
| Commodities (close & change)* | | | TWI | | 60.5 | - | - | 60.5 | United States | |
| CRB Index | 257.7 | 2.5 | AUD/USD | 0.6718 | 0.6726 | 0.6650 | 0.6669 | 3-month T Bill | 4.50 | -0.05 |
| Gold | 1,940.08 | 0.0 | AUD/JPY | 88.23 | 88.51 | 87.71 | 88.37 | 2 year bond | 4.17 | 0.19 |
| Copper | 8,762.25 | 61.0 | AUD/GBP | 0.5472 | 0.5476 | 0.5446 | 0.5459 | 10 year bond | 3.61 | 0.12 |
| Oil (WTI futures) | 69.33 | 1.7 | AUD/NZD | 1.0756 | 1.0797 | 1.0736 | 1.0768 | Other (10 year yields) | | |
| Coal (thermal) | 182.00 | 5.5 | AUD/EUR | 0.6268 | 0.6272 | 0.6175 | 0.6194 | Germany | 2.29 | 0.17 |
| Coal (coking) | 353.50 | 0.8 | AUD/CNH | 4.6185 | 4.6226 | 4.5745 | 4.5866 | Japan | 0.25 | 0.00 |
| Iron Ore | 123.70 | 0.2 | USD Index | 103.29 | 103.52 | 103.00 | 103.22 | UK | 3.37 | 0.06 |

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: Markets were calmer overnight. The bond market measure of volatility, the MOVE index, dropped 20.3 points to 162.3. It had been as high as 198.7 on March 15. Major share market indices rose. Government bond yields in the US and major economies of Europe lifted. The market is also eyeing the upcoming Fed decision. Markets are now pricing in a high chance of a Fed rate hike of 25 basis points in size.

Global Banking Developments: UBS shares soared around 12%, the most since March 2020, on rising optimism about the acquisition of Credit Suisse.

However, credit rating agencies are more cautious. Credit rating agency Fitch put UBS on watch for a possible downgrade, citing execution risk.

The European Central Bank (ECB) is asking banks about indirect exposures such as clients losing money on the wipe-out of Credit Suisse's Additional Tier 1 bonds. UBS is more reliant on risky AT1s than any other major lender in Europe — equivalent to 28% of its high-quality capital. The average in Europe is 16% according to a Bloomberg report.

US Federal Treasury Secretary, Janet Yellen, said US regulators may act to protect bank depositors if smaller lenders are threatened. She said the US government "is resolutely committed" to mitigating financial stability risks where necessary. She also reiterated her call for Congress to increase or

suspend the debt ceiling.

Share Markets: US share markets rose for a second day as bank shares rallied. The Dow added 1.0%, the S&P 500 increased 1.3% and the Nasdaq lifted 1.6%. The Euro Stoxx 50 index jumped 1.5%.

Interest Rates: Treasuries dived as traders resumed betting on a Fed hike tomorrow morning AEDT, with two-year yields jumping 19 basis points and 10-year yields climbing 12 basis points. Markets are attaching a probability of 82% to a rate hike of 25 basis points from the Fed. Rate cuts are still priced in before year's end, but the timing of a rate-cutting cycle has been pushed out.

Foreign Exchange: The US dollar index traded in a tight range overnight of 103.0-103.4 and ended the New York session much where it started overnight's European session. There were material moves in the euro overnight and euro crosses. EUR/USD lifted from around 1.0700 to nearly 1.0800. AUD/EUR fell sharply from yesterday's high around 0.6270 to a low of 66.50. The AUD was also sharply lower vs the USD. It fell from 0.6726 to 0.6650, but remained within its recent trading range.

Commodities: The improvement in risk sentiment contributed to a broad based recovery in commodity prices.

Australia: In March, the Reserve Bank (RBA) Board increased the cash rate by 25 basis points to 3.60%.

The March Board meeting was held before recent developments in the US and Swiss banking sectors. While financial stability concerns will factor into deliberations, the policy stance before these concerns emerged is also important to how the RBA will react in April.

Unlike recent meetings, the March minutes did not discuss the specific policy options considered. The narrower set of options reflected that the RBA weighted the need to combat elevated inflation more heavily than signs that the economy is beginning to turn.

The minutes acknowledged that some initial progress is being made on bringing inflation down, but the elevated level of inflation and the expectation that this progress will be slow meant that further policy action was necessary.

The minutes note that “monetary policy was in restrictive territory” and that “it would be appropriate at some point to hold the cash rate steady”. Members “agreed to reconsider the case for a pause at the following meeting”, being April. This confirms that subject to the data, the RBA was ready to pause in April, even before recent global developments in the banking sector. These global developments have led to a tightening in financial conditions and could support a pause in April.

Both the domestic data and developments in the global economy are likely to support a pause in April. Beyond this, there is a chance that the data may warrant further hikes.

Europe: The euro area’s ZEW index recorded a pull back in March. The region’s index fell from 29.7 to 10.0. Germany’s ZEW slipped from 29.1 in February to 13.0 in March.

United States: The Fed must decide whether to raise rates in the face of a possible banking crisis or stand pat despite inflation. The former could add to financial stresses and spook markets, the latter signal a lack of confidence about ongoing risks — and spook markets. We are anticipating a rate hike of 25 basis points with the Fed ready to remain on standby to support the banking sector and financial markets if needed.

The Philadelphia Fed’s non manufacturing index plunged to -12.8 in March, from 3.2 in February.

The median sales price of a previously owned US home slid in February for the first time since 2012. The median price slipped 0.2% in February from a year earlier to \$363,000, according to the National Association of Realtors. The decrease was fuelled by a 0.7% drop in the cost of single-family homes and

coincided with a bigger-than-expected jump in sales during the month. Existing home sales jumped 14.5% in the month to 4.58 million units.

Today’s key data and events:

AU Leading Index Feb prev -0.08% (10:30am)

UK CPI Feb (6pm)

m/m exp 0.6% prev -0.6%

y/y exp 9.9% prev 10.1%

EZ Current Account Jan prev €15.9bn (8pm)

US FOMC exp 4.75%-5.00% prev 4.50%-4.75% (5am)

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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