Morning Report

Tuesday, 28 February 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,225	-1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,889	0.2%	10 yr bond	3.88		0.00		90 day BBSW	3.55	0.04
Japan Nikkei	27,424	-0.1%	3 yr bond	3.65		0.00		2 year bond	3.63	0.07
China Shanghai	3,415	-0.3%	3 mth bill rate	3.66		0.00		3 year bond	3.64	0.07
German DAX	15,381	1.1%	SPI 200	7,198.0		31		3 year swap	4.08	-0.04
UK FTSE100	7,935	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.87	0.05
Commodities (close & change)*			TWI	62.0	-	-	62.0	**United States**		
CRB Index	268.6	1.4	AUD/USD	0.6731	0.6745	0.6698	0.6739	3-month T Bill	4.65	-0.04
Gold	1,816.75	5.7	AUD/JPY	91.79	91.92	91.33	91.82	2 year bond	4.78	-0.03
Copper	8,705.50	-193.5	AUD/GBP	0.5627	0.5637	0.5584	0.5589	10 year bond	3.92	-0.02
Oil (WTI futures)	75.69	-0.6	AUD/NZD	1.0919	1.0934	1.0908	1.0927	**Other (10 year yields)**		
Coal (thermal)	196.50	-7.8	AUD/EUR	0.6380	0.6386	0.6343	0.6353	Germany	2.58	0.04
Coal (coking)	371.00	0.7	AUD/CNH	4.6995	4.7044	4.6737	4.6912	Japan	0.51	0.00
Iron Ore	123.60	0.9	USD Index	105.18	105.36	104.55	104.67	UK	3.81	0.15

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 as US economic data suggested the economy remains resilient despite aggressive hikes in interest rates. Equity markets ended higher, bond yields declined, and the US dollar weakened against a basket of major currencies.

Share Markets: Equity markets ended the day higher as positive economic data added to hopes that the economy would be able to withstand pressure from higher interest rates. The S&P 500 ended 0.3% higher, the Nasdaq gained 0.6% and the Dow Jones was up 0.2%.

The ASX 200 fell 1.1% yesterday. Futures are pointing to a positive open today.

Interest Rates: Bond yields declined in line with an improvement in risk sentiment. The 2-year yield fell 3 basis points, to 4.78%. The 10-year was down 2 basis points, to 3.92%.

Interest-rate markets are pricing the Federal funds rate to be 30 basis points higher at the March meeting, implying a more than 100% chance of a 25-basis-point hike and some chance of a more aggressive 50-basis-point move. Markets are expecting rates to peak at 5.40% in the back half of 2023.

Australian government bond yield (futures) ended the session unchanged. The 3-year and 10-year government bond yield (futures) were both unchanged at 3.65% and 3.88%, respectively.

Interest-rate markets are pricing 20 basis points of tightening at the RBA's March meeting and expect the cash rate to peak at around 4.35% in late 2023.

Currencies: The US dollar declined against a basket of major currencies as risk sentiment improved. The USD Index fell from a high of 105.36 to a low of 104.55, before settling at 104.67.

The AUD/USD pair strengthened in line with an improvement in risk sentiment. The pair rose from a low of 0.6698 (its lowest level since 3 January) to a high of 0.6745. It was trading near that level, at 0.6739 at the time of writing.

Commodities: Oil pulled back after two days of gains. Thermal coal and copper were also weaker. Gold, iron ore and coking coal rose on the day.

Australia: Business indicators data for the December quarter showed that business profits surged 10.6%, almost fully unwinding an 11.5% slide in the September quarter. All but one of fifteen industries reported an increase in profits in the quarter. Notably, profits in the non-mining industries climbed 9.6% in the quarter, while mining profits were up 11.6%. In annual terms, profits rose 16.0%, led by a 33.2% increase in mining profits.

When looking at the profit margins, eight of the 15 industries have lower margins than a year ago – this means that, in percentage terms, their costs have gone up by more than revenue. Looking further back, 11 of the 15 industries had higher profit margins compared to pre-COVID (as at December quarter 2019).

Inventories contracted in the December quarter following a sizeable build-up over the remainder of 2022. Total inventories declined 0.2% in the quarter but remained 5.9% higher in annual terms. The wear-down of inventories in the quarter was concentrated in the retail and accommodation & food industries.

Europe: Economic confidence remained in contractionary territory for an eighth consecutive month in February – at a reading of 99.7. This was despite a milder winter adding to hopes that the region would be able to avoid a serious recession. The outcome was below consensus expectations of 101.0 and was largely unchanged from the 99.8 result in the prior month.

Looking at the main sub-components, a slowing in confidence was seen across both services and industrial confidence. Services confidence slid from 10.4 in January to 9.5 in February, while industrial confidence was barely in positive territory at 0.5, from 1.2 in January. Both measures were below consensus expectations.

New Zealand: Real retail spending (i.e. after accounting for price increases) fell by 0.6% in Q4. This was below consensus expectations of a 0.2% gain and was down from the 0.6% gain in the prior quarter. This represents the third quarterly decline in real retail spending over the four quarters of 2022.

Despite the fall in volumes, nominal spending rose 1.7%. This indicates that households continue to spend, but that price increases mean they are getting less bang for their buck in real terms.

Looking into the detail, spending on durable items like electronics and recreational goods was down 9% on this time last year. However, spending on recreational activities, like dining out and accommodation, has been climbing rapidly. Spending on necessities like groceries (up 6.6% over the past year) has also been robust, despite prices increases of more than 10% over the same period.

United States: Durable goods orders declined 4.5% in January, following a 5.1% gain in December. The outcome was below consensus expectations of a 4.0% drop. However, once stripping out the more volatile transport (e.g. aeroplanes) and defence components, orders were up 0.8% on the month. This was above expectations of a flat outcome and followed a -0.3% result from December.

The outcome was the strongest gain in five months for orders placed for business equipment, suggesting that businesses continue to make longer-term investments in capital even as interest rates rise and economic growth becomes more uncertain. However, the numbers are reported in nominal terms so are not adjusted for the impact of prices. This suggests that higher prices have accounted for some of the gain.

Pending home sales rose in January by the most in one month since June 2020. Pending home sales were 8.1% higher in January, following a 1.1% gain in December. This was above consensus expectations of a 1.0% gain. While interest rates have risen as the Federal Reserve has aggressively lifted the Federal funds rate, sales in January were supported by lower borrowing rates in that month. However, rates have begun to increase again and further hikes are expected from the Fed, likely weighing on sales in future months. In annual terms, sales were down 22.4% over the year to January. This followed a 34.3% drop over the year to December.

Manufacturing activity in Texas slowed further in February, as indicated by the Dallas Fed manufacturing survey. Manufacturing activity declined to -13.5 in the month. This followed an outcome of -8.4 in January and was below consensus expectations of -9.3. Production slipped into negative territory (-2.8) and new orders were weak (-13.2).

Today's key data and events:

AU Current Account Q4 exp $2.0bn prev -$2.3bn (11:30am)

AU Retail Sales Jan exp 1.0% prev -3.9% (11:30am)

AU Private Sector Credit Jan exp 0.4% prev 0.3% (11:30am)

AU CoreLogic Dwelling Prices Feb exp -0.1% prev -1.1% (12:01am)

JN Industrial Production Jan exp -2.9% prev 0.35 (10:50am)

NZ ANZ Business Confidence Feb prev -52.0 (11am)

US FHFA House Prices Dec exp -0.2% prev -0.1% (1am)

US S&P CoreLogic CS House Prices Dec exp -0.4% prev -0.5% (1am)

US Chicago PMI Feb exp 45.3 prev 44.3 (1:45am)

US Richmond Fed Index Feb exp -5 prev -11 (2am)

US Consumer Confidence Index Feb exp 108.5 prev 107.1 (2am)

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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