Morning Report

Tuesday, 28 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,962	0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,432	0.6%	10 yr bond	3.29		0.10		90 day BBSW	3.70	-0.01
Japan Nikkei	27,477	0.3%	3 yr bond	2.88		0.12		2 year bond	2.83	-0.04
China Shanghai	3,408	-0.4%	3 mth bill rate	3.59		0.07		3 year bond	2.81	-0.04
German DAX	15,128	1.1%	SPI 200	7,021.0		29		3 year swap	3.41	0.10
UK FTSE100	7,472	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.19	-0.02
Commodities (close & change)*			TWI	60.0	-	-	60.0	**United States**		
CRB Index	262.3	3.8	AUD/USD	0.6653	0.6666	0.6634	0.6651	3-months T Bill	4.54	0.00
Gold	1,956.67	0.0	AUD/JPY	86.90	87.54	86.68	87.50	2 year bond	4.00	0.23
Copper	8,963.25	41.5	AUD/GBP	0.5440	0.5443	0.5407	0.5412	10 year bond	3.53	0.15
Oil (WTI futures)	72.87	3.6	AUD/NZD	1.0726	1.0746	1.0707	1.0732	**Other (10 year yields)**		
Coal (thermal)	195.00	2.7	AUD/EUR	0.6176	0.6192	0.6151	0.6158	Germany	2.23	0.10
Coal (coking)	354.00	0.0	AUD/CNH	4.5707	4.5872	4.5609	4.5775	Japan	0.32	0.00
Iron Ore	119.60	0.4	USD Index	103.03	103.23	102.83	102.84	UK	3.37	0.08

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 stabilised as fears of broader contagion in the banking sector retreated. US equities moved higher, supported by gains in banking stocks, while treasury yields surged, and the US dollar softened. Markets remain fragile despite the improvement in sentiment and are vulnerable to any adverse developments in the banking sector.

Global Banking Developments: First Citizens Bancshares inked a government-backed deal to acquire the assets of the Silicon Valley Bank (SVB) after the Federal Deposit Insurance Corporation (FDIC) took control of the defunct bank on March 10. The sale included the purchase of about $72bn in loans, at a discount of $16.5bn, and the transfer of all SVB's remaining deposits, worth $56bn. SVB had roughly $175bn deposits before its collapse. Around $90bn of SVB's securities and other assets were not included in the sale and remain in the FDIC's control. Any losses above $5bn arising from the transferred loan portfolio will be split 50/50 between First Citizens Bancshares and the FDIC.

Following the Sale, the FDIC estimate that the cost of SVB's failure on the government's deposit insurance fund would be around $20bn. This amount, once finalised, will be levied on all the other banks to recover losses to taxpayers.

The FDIC has also launched a probe into the conduct of management at SVB and Signature Bank. The investigation will run alongside the Federal Reserve's own investigation into the collapse of the two lenders.

Share Markets: US equities finished in the green after paring earlier gains. The S&P 500 and the Dow Jones closed up 0.2% and 0.6%, respectively. The NASDAQ bucked the trend, closing down 0.5% as the rally in treasury yields weighed on tech stocks.

The ASX 200 gained 0.1% yesterday after being up as much as 0.5% earlier in the day. Futures are pointing to a positive open this morning.

Interest Rates: Treasury yields rose sharply across the curve as easing concerns of contagion in the banking sector shifted the attention back towards quelling sticky inflation. The 2-year treasury yield jumped 23 basis points to 4.00%, while the 10-year yield rose 15 basis points to 3.53%.

Interest rate markets are pricing in a 54% probability of another 25-basis point hike from the Fed in May and are pricing in rate cuts as early as September.

Aussie bond futures mimicked the moves in treasuries overnight. The Australian 3-year bond (futures) yield climbed 12 basis points to 2.88%, while the 10-year (futures) yield was up 10 basis points to 3.29%.

Market pricing continues to suggest the Reserve Bank (RBA) is finished with interest rate hikes. A 25-

basis point cut is fully priced in for August.

Foreign Exchange: The Aussie dollar traded a very tight range between 0.6634 and 0.6666 and is currently sitting around 0.6651, not far off where it opened.

The USD was softer against a basket of major currencies as the stabilisation in risk sentiment undermined safe-haven demand. The DXY index softened from a high of 103.23 to a low of 102.83 and was trading slightly above that level at the time of writing.

Commodities: Commodity prices were broadly higher overnight. The West Texas Intermediate (WTI) price of oil rose to US$72.87 per barrel, its highest level in two weeks.

Australia: There were no major economic data releases yesterday.

China: Industrial profits over the first two months of 2023 were 22.9% lower than over the same period last year. The sharp rebound in activity doesn't appear to have translated to the bottom line yet. This will likely take more time as demand and confidence strengthen further.

Eurozone: The German IFO business climate index firmed to 93.3 in March from 91.1 in February. The assessment of both current conditions and the outlook improved, reflecting the recent resilience of the German economy. This was the fifth consecutive monthly improvement in business conditions, however, the index remains subdued relative to history.

Money supply expanded 2.9% over the year to February, down from 3.5% in January and weaker than expectations for a 3.2% gain. This was the softest annual increase in M3 money supply since October 2014 as the European Central Bank (ECB) continues to tighten policy settings.

United States: The Dallas Fed manufacturing index was weaker than expected in March, falling to -15.7 from -13.5 in February. This was the second consecutive monthly drop in manufacturing conditions and the weakest reading since December.

World: The World Bank warned that the COVID-19 pandemic and the war in Ukraine threatened the global economy's long-term growth potential and risk leading to what could be a "lost decade". The Bank projected that average potential global output is poised to fall to a 30-year low of 2.2% between 2023 and 2030. This compares to 3.5% per year during the 2000's.

Today's key data and events:

AU Retail Sales Feb exp 0.5% prev -1.9% (11:30am)

US FHFA House Prices Jan exp -0.3% prev -0.1% (12am)

US S&P CoreLogic CS House Prices Jan exp -0.5% prev -0.5% (12am)

US Richmond Fed Index Mar exp -9 prev -16 (1am)

US Cons. Conf. Index Mar exp 101.0 prev 102.9 (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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