Morning Report

Wednesday, 29 March 2023

Equities (close & % change)		
S&P/ASX 200	7,034	1.0%
US Dow Jones	32,394	-0.1%
Japan Nikkei	27,518	0.2%
China Shanghai	3,402	-0.2%
German DAX	15,142	0.1%
UK FTSE100	7,484	0.2%
Commodities (close & change)*		
CRB Index	263.5	1.2
Gold	1,973.55	0.0
Copper	8,963.25	41.5
Oil (WTI futures)	73.58	0.8
Coal (thermal)	192.00	-3.0
Coal (coking)	350.33	-3.7
Iron Ore	121.90	0.6

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	3.35	0.05
3 yr bond	2.92	0.05
3 mth bill rate	3.60	0.04
SPI 200	7,028.0	-26

FX Last 24 hrs	Open	High	Low	Current
TWI	59.9	-	-	59.9
AUD/USD	0.6651	0.6710	0.6646	0.6709
AUD/JPY	87.50	87.88	87.15	87.81
AUD/GBP	0.5412	0.5437	0.5410	0.5435
AUD/NZD	1.0732	1.0746	1.0709	1.0730
AUD/EUR	0.6161	0.6192	0.6156	0.6186
AUD/CNH	4.5779	4.6170	4.5752	4.6145
USD Index	102.85	102.86	102.38	102.43

Interest rates (close & change)		
Australia		
90 day BBSW	3.70	0.00
2 year bond	2.93	0.10
3 year bond	2.91	0.10
3 year swap	3.46	0.01
10 year bond	3.30	0.11
United States		
3-month T Bill	4.53	-0.08
2 year bond	4.08	0.08
10 year bond	3.57	0.04
Other (10 year yields)		
Germany	2.29	0.06
Japan	0.36	0.04
UK	3.46	0.09

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: Financial stability concerns continued to gradually decline, and some relative calm returned to markets. Bond yields increased as focus turned away from banking concerns back towards inflation and how much work the Fed still has to do to get price pressures under control. Higher interest rates weighted on equity valuations, leading to a fall in stock indices. The US dollar weakened slightly against major currencies after trading in a narrow range.

Global Banking Developments: Major regulatory changes are expected in the US following the collapse of Silicon Valley Bank (SVB) and issues across the regional banking sector. Regulators, including the Federal Reserve Vice Chair for Supervision, Michael Barr, and the Federal Deposit Insurance Corporation Chairman, Martin Gruenberg, outlined some of the changes that are likely to proposed in testimony before the Senate Banking Committee.

Potential changes include closer investigation of banks with assets over $100 billion, but that aren't considered systemically important. Other changes include a greater focus on stress testing bank portfolios against tail risk scenarios and potential contagion, potential changes to deposit insurance arrangements, stronger liquidity rules, stronger capital requirements, and a long-term debt requirement so that banks that aren't considered globally systemically important "have a cushion of loss-absorbing resources".

Reports suggest that the selloff in banking shares last Friday may have been triggered by a single large trade in credit default swaps on Deutsche Bank. A 5-million-euro trade may have sparked the market ructions, which triggered a broader selloff in Deutsche Bank, and other banking shares and bonds.

Share Markets: Higher bond yields weighed on equity markets, with US indices closing lower on the day. The S&P 500 was down 0.2%, the tech-heavy Nasdaq lost 0.4% and the Dow Jones slipped 0.1%.

The ASX 200 rose 1.0% yesterday on improved risk sentiment. Futures have taken the lead from overnight movements and are pointing to a weaker open today.

Interest Rates: Bond yields rose as banking concerns gradually receded and attention returned to how much work the Fed still has to do to get inflation back down to its 2% target. The 2-year treasury yield rose 8 basis points, to 4.08%, while the 10-year yield was 4 basis points higher, at 3.57%.

Interest-rate markets are pricing in around a 44% chance of another 25-basis-point hike from the Fed at its May meeting. Cuts are still expected in the second half of 2023, however, these expectations have been pared back slightly. Markets now expect rates to fall to 4.16% by January 2024. This compares with 4.04% yesterday.

Australian bond moves mimicked those in the US. The 3-year and 10-year Australian government bond yield (futures) both rose 5 basis points, to 2.92% and 3.35%, respectively.

Interest-rate markets continue to expect a pause at the Reserve Bank's April meeting, but are now entertaining a hike in May, with 6 basis points of hikes (or a 24% probability) priced for the May meeting. Beyond May, markets continue to price in cuts to the cash rate, with an expectation that the cash rate falls to 3.30% by the end of 2023.

Foreign Exchange: The US dollar fell against a basket of major currencies after training in a relatively narrow range. The USD Index declined from a high of 102.86 to a low of 102.38, before increasing slightly to settle at 102.42.

The AUD/USD pair moved higher on the back of US dollar weakness. The pair rose from a low of 0.6646 in the Asian session to a high of 0.6710 in the New York session. It settled around its high for the day, at 0.6709.

Commodities: Copper, oil and iron ore rose on the day. Gold was flat, which coal prices declined.

Australia: Retail trade increased by just 0.2% over the month of February. Retail turnover increased across most spending categories and states.

Retail spending figures have been heavily impacted by seasonality around the summer break. Looking through this seasonality, it is evident that spending growth has slowed. Over the three months to February, spending has fallen by 1.5% compared with spending over the previous three months (September to November 2022).

But the picture softens significantly when adjusting for the population. Relative to the working age population, spending over the past three months has fallen by 2.1% - the largest quarterly fall on record, outside of COVID. This suggests that the strong migration numbers are holding up aggregate spending.

A growing population will continue to support higher consumption, especially spending on food and essentials. Overseas migrants are also likely to dine out and undertake tourist activities, supporting spending on cafes, restaurants & takeaway.

Outside of this, consumers have pulled back on certain discretionary items – over the past three months, retail trade excluding food and cafes, restaurants & takeaway has fallen by 4.3% - the sharpest drop since March 2018, outside of COVID.

The underlying weakness in household spending evident in the December quarter National Accounts has continued into 2023 as cost-of-living pressures and higher interest rates weigh on household income.

United States: Consumer confidence surprised to the upside in March, increasing to 104.2, from 103.4 in February. This was above consensus expectations for a decline to 101.0. The increase was surprising as the survey was undertaken post the failure of SVB, which appears to have had little immediate impact on consumer confidence. The increase reflected an improved outlook for consumers under 55 and for those households earning over $50k. Views on the present situation pulled back slightly, but remained elevated (at 151.1), while expectations for the future improved to 73.0, from 70.4.

House prices declined for the seventh consecutive month. The CoreLogic 20-city index dropped 0.4% in January, slightly below an expected fall of 0.5%. This followed a 0.5% fall in December. House prices have now fallen 3% from their record high in June 2022. However, despite the falls over the past seven month, prices remain elevated and rose 2.5% over the year to January. The broader CoreLogic Case-Shiller national home price index, which measures prices across the country, not just the 20 largest metro regions, rose by 3.8% over the year to January. The pace was down from the 5.6% annual gain in December.

Conversely, the FHFA house price index gained in January, rising by 0.2% in the month, versus a 0.1% drop in December. There are some differences in the methodology between the two indices – such as the CoreLogic index being value weighted and the FHFA index being equally weighted, among other differences – which can give rise to varying outcomes in the near-term.

The Richmond Fed manufacturing index pointed to a continued contraction in manufacturing, however, the outcome was better than expected. The index came in at -5 for March. This was up from the -16 outcome in February and above consensus expectations of -10. Shipments improved to +2 in March (vs -15 in February) and the volume of new orders also rose, from -24 in February to -11 in March.

Today's key data and events:

AU Monthly CPI Feb exp 7.4% prev 7.4% (11:30am)

US Pending Home Sales Feb exp -3.0% prev 8.1% (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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