Morning Report

Monday, 3 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,178	0.8%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,274	1.3%	10 yr bond	3.24		-0.06		90 day BBSW	3.72	0.01
Japan Nikkei	28,041	0.9%	3 yr bond	2.85		-0.06		2 year bond	2.95	-0.05
China Shanghai	3,430	0.4%	3 mth bill rate	3.60		-0.02		3 year bond	2.94	-0.04
German DAX	15,629	0.7%	SPI 200	7,236.0		45		3 year swap	3.35	-0.06
UK FTSE100	7,632	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.30	-0.06
Commodities (close & change)*			TWI	60.3	-	-	60.3	**United States**		
CRB Index	267.7	3.3	AUD/USD	0.6712	0.6738	0.6670	0.6683	3-month T Bill	4.58	-0.13
Gold	1,969.28	-11.1	AUD/JPY	89.07	89.69	88.63	89.08	2 year bond	4.03	-0.09
Copper	8,994.50	-5.8	AUD/GBP	0.5419	0.5437	0.5395	0.5420	10 year bond	3.47	-0.08
Oil (WTI futures)	75.67	1.3	AUD/NZD	1.0717	1.0721	1.0672	1.0692	**Other (10 year yields)**		
Coal (thermal)	193.00	5.5	AUD/EUR	0.6153	0.6183	0.6132	0.6164	Germany	2.29	-0.08
Coal (coking)	302.33	-1.2	AUD/CNH	4.6139	4.6236	4.5859	4.5930	Japan	0.35	0.02
Iron Ore	123.60	-1.7	USD Index	102.17	102.63	102.05	102.59	UK	3.49	-0.03

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 on the back of weaker than expected US consumer inflation and solid economic data coming out of China pointing to accelerating economic activity.

Equity markets were generally higher. Bond yields declined. The US dollar rose against a basket of major currencies.

Share Markets: US share markets ended Friday's session higher. Lower than expected US consumer prices and solid data out of China supported risk sentiment. The S&P 500 was 1.4% higher, the Nasdaq jumped 1.7% and the Dow rose 1.3%.

European markets were also generally higher as euro area inflation came in slightly below expectations and the unemployment rate remained low. The German DAX and the Euro Stoxx 50 were both up by 0.7%, and the UK FTSE 100 closed 0.1% higher.

The ASX 200 increased by 0.8% on Friday, to be 3.2% higher over the week. Futures are currently pointing to a positive open this morning.

Interest Rates: US bond yields declined across the curve driven by the softer US consumer price inflation. The US 2-year bond yield fell by 9 basis points to 4.03%. The 10-year yield declined by 8 basis points to 3.47%.

Interest-rate markets are pricing in around a 57% chance of a hike of 25 basis points at the Fed's May meeting and are pricing in cuts from the middle of 2023, with around 60 basis points of cuts currently priced to the end of the year.

The 3-year Australian government bond yield (futures) fell by 6 basis points to 2.85%. The 10-year government bond yield (futures) fell by 6 basis points to 3.24%.

Interest-rate markets are pricing in a zero chance of a rate hike at tomorrow's Reserve Bank Board meeting and are currently pricing in around 21 basis points of cuts over the back half of 2023.

Economist generally agree with market pricing for tomorrow's meeting with 16 of 27 economists surveyed by Bloomberg expecting a pause. The other 11 surveyed economist expect a quarter percentage-point increase to 3.85%.

Foreign Exchange: The US dollar rose against a basket of major currencies. The USD Index increased from a low of 102.05 to a high of 102.63, before settling at 102.59.

The AUD/USD pair was weaker and traded a very narrow range of 0.6670 and 0.6738, ahead of the Reserve Bank Board meeting tomorrow. The pair declined from a high of 0.6738 to a low of 0.6670, before recovering to be around 0.6683.

Commodities: Commodities were mixed. Oil and thermal coal were higher. The West Texas Intermediate (WTI) futures contract closed higher at above USD 75 per barrel.

The price of oil is expected to increase following OPEC+ surprise announcement to cut oil production by more than 1 million barrels a day. Saudi Arabia led the cartel by announcing its own 500,000 barrel-a-day supply reduction. Other members including Kuwait, the United Arab Emirates and Algeria followed.

Australia: CoreLogic's national Home Value Index posted the first monthly increase since April 2022, up 0.6% over the month of March. Dwelling values were higher across the four largest capital cities, led by a 1.4% gain in Sydney.

Private sector credit expanded 0.3% in February, down from the 0.4% recorded in January. Over the year to February, credit grew by 7.6% – the slowest annual pace in 13 months.

Business credit expanded 0.4% in the month. This was slower than the average growth of 0.7% recorded over the past 6 months but in line with the 10-year average. Over the year to February, business credit grew by 11.9% – the slowest pace since April 2022.

While business credit growth has slowed in line with a weakening economic outlook, elevated capacity utilisation and generous government tax incentives (available until June 2023), are providing a partial offset as some businesses continue to expand capacity to meet demand.

Monthly housing credit growth remained steady for the third consecutive month, growing by 0.3% in February. In annual terms, credit slowed to 5.8% as higher interest rates have impacted demand for housing and new loans have fallen sharply. Monthly owner-occupier and investor housing credit both remained steady in February, at 0.4% and 0.2%, respectively.

Credit growth has continued to slow as aggressive hikes from the Reserve Bank to control inflationary pressures impact households, businesses, and the broader economy.

New Zealand: The Consumer Confidence Index fell by 2 index points to 77.7 in March from 79.8 points in February. Higher living costs and rising interest rates underpinned this deterioration in confidence. Inflation expectations went up from 5.2% to 5.4%, the highest figure in nine months. The proportion of people who believe it is a good time to buy a major household item, rose 3 points to -32% - still well entrenched in negative territory.

China: The composite Purchasing Managers' Index (PMI) rose to a new record peak of 57 points in March 2023, from 56.4 in February. Manufacturing activity continued its robust growth while the non-manufacturing or service sector grew at the fastest pace in nearly 12 years.

The PMI for the non-manufacturing sector jumped to 58.2 points in March, the highest level since May 2011. This was better than the 55.0 points the market was expecting. This solid jump was led by a surge in the construction sub-index to a record high.

The manufacturing PMI was at 51.9 points in March, slightly better than the 51.5 points the market was expecting. The outcome was down from the 52.6 points recorded in February. Nonetheless, a reading above 50 signals expansion from the previous month.

Eurozone: The Consumer Price Index (CPI) increased by 0.9% over March to be 6.9% higher in annual terms. This outcome was below the 7.1% the market was excepting. The core CPI, which excludes volatile items such as food and energy, hit a fresh record high of 5.7%. The cost of energy declined for the first time in two years, by 0.9% compared with an increase of 13.7% in February. Services inflation accelerated to 5.0%, higher than the 4.8% recorded in February 2023. High core inflation and accelerating services inflation continue to put pressure on policymakers to push on with further rate hikes.

The unemployment rate remained at a record low of 6.6% in February, unchanged from January and slightly better than the 6.7% the market was expecting. Amongst the largest Euro Area economies, the lowest jobless rate was recorded in Germany (2.9%), while the highest rate was registered in Spain (12.8%).

United Kingdom: House prices fell 3.1% over the year to March. This represents an acceleration from the 1.1% annual fall recorded in February, making it the sharpest drop since July 2009 – during the Global Financial Crisis. Over the month of March, house prices fell by 0.8%. This was more than twice the fall of 0.3% the market was expecting.

Economic activity expanded by 0.1% over the December quarter, slightly higher than the preliminary estimate of no growth. Gross Domestic Product (GDP) in the September quarter was also revised to show a fall of 0.1%, a smaller fall than initially thought. Despite the improvement, economic output remained below its pre pandemic level of late 2019, the only G7 economy not to have recovered from the pandemic.

The current account deficit in the December quarter was 2.5 billion pounds, or 0.4% of GDP. This was better than the 17.2 billion pounds the market was expecting. Increased foreign earnings by companies, particularly in the energy sector, helped narrow the deficit.

United States: The core Personal Consumption Expenditure (PCE) inflation rate, which strips out the prices of food and energy, increased by 0.3% over February to be 4.6% higher in annual terms. This was lower than the 0.4% monthly increase the market was expecting and a step down from the 0.5% recorded over the month of January. The so call "super-core" PCE inflation rate, which also strips out housing, rose 0.3% over the month of February, that's equal to 3.3% on an annualised basis. This outcome suggests that the economy is on a disinflationary path and that could mean that the Fed's hiking cycle is nearing an end.

Personal spending rose 0.2% over the month of February, slightly below the 0.3% the market was expecting. Data for January was revised higher to show spending increased by 2.0% instead of the previously reported 1.8%. Consumers increased spending on housing and utilities as well as on healthcare, but cut back on spending at restaurants, bars, and hotel accommodation.

In real terms, or after adjusting for the impact of higher prices, personal spending declined by 0.1%, in line with what the market was expecting.

Personal income grew by 0.3% over the month of February, slightly above the 0.2% the market was expecting but below the 0.6% recorded in January.

The University of Michigan consumer sentiment was revised lower to 62 in March, from a preliminary read of 67. All five of the sub-indices declined over March, led by a sharp weakening in one-year ahead business conditions. On a positive note, inflation expectations for the year were revised lower to 3.6% from 3.8% in the preliminary estimate.

The Chicago PMI increased for the first time this year to 43.8 points in March from 43.6 points in February. This was better than the 43.0 points the market was expecting. Notwithstanding the improvement, the reading still pointed to a seventh straight month of contraction in activity.

Banks reduced their borrowings from two Fed backstop lending facilities last week. This could suggest that liquidity demand may be stabilizing. US institutions had a combined $152.6 billion in outstanding borrowings, compared with $163.9 billion the previous week.

Deposits at US banks fell and lending declined by the most in nearly two years. Commercial bank deposits dropped by $125.7 billion in the week ended March 22. At domestically chartered banks, deposits fell $84 billion. Deposits at small banks increased.

Today's key data and events:

AU CoreLogic Dwelling Prices Mar exp 0.8% prev -0.1% (12:01am)

AU MI Inflation Mar y/y prev 6.3% (11am)

AU Housing Finance Feb (11:30am)

Total exp -1.0% prev -5.3%

Investor exp -0.6% prev -6.0%

Owner-occupier exp -1.2% prev -4.9%

AU Building Approvals Feb exp -2.0% prev -27.6% (11:30am)

CH Caixin Mfg PMI Mar exp 51.4 prev 51.6 (11:45am)

EZ Markit Mfg PMI Mar Final exp 47.1 prev 47.1 (6pm)

JN Nikkei Mfg PMI Mar Final prev 48.6 (10:30am)

UK Markit Mfg PMI Mar Final prev 48.0 (6:30pm)

US Markit Mfg PMI Mar Final prev 49.3 (11:45pm)

US Construction Spending Feb exp 0.0% prev -0.1% (12am)

US ISM Mfg PMI Mar exp 47.5 prev 47.7 (12am)

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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