Morning Report

Thursday, 6 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,237	0.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,483	0.2%	10 yr bond	3.22		-0.06		90 day BBSW	3.64	-0.06
Japan Nikkei	27,813	-1.7%	3 yr bond	2.83		-0.03		2 year bond	2.91	0.00
China Shanghai	3,472	0.5%	3 mth bill rate	3.57		-0.01		3 year bond	2.90	0.00
German DAX	15,520	-0.5%	SPI 200	7,254.0		-7		3 year swap	3.22	-0.06
UK FTSE100	7,663	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.28	0.02
Commodities (close & change)*			TWI	61.0	-	-	61.0	**United States**		
CRB Index	272.2	1.1	AUD/USD	0.6753	0.6780	0.6677	0.6723	3-month T Bill	4.70	0.02
Gold	2,020.68	0.0	AUD/JPY	88.94	89.20	87.64	88.25	2 year bond	3.78	-0.05
Copper	8,781.75	38.0	AUD/GBP	0.5402	0.5425	0.5354	0.5395	10 year bond	3.31	-0.03
Oil (WTI futures)	80.61	-0.1	AUD/NZD	1.0699	1.0716	1.0588	1.0640	**Other (10 year yields)**		
Coal (thermal)	229.80	2.3	AUD/EUR	0.6164	0.6185	0.6103	0.6165	Germany	2.18	-0.07
Coal (coking)	297.00	0.0	AUD/CNH	4.6457	4.6612	4.5965	4.6286	Japan	0.48	0.06
Iron Ore	117.05	-0.8	USD Index	101.52	101.99	101.42	101.92	UK	3.43	-0.01

Data as at 7:30 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Weaker-than-expected US economic data revived recession fears, prompting a risk-off mood in markets. Equities finished lower, while the US dollar appreciated modestly. The flight to safety contributed to a decline in US treasury yields.

Share Markets: Equities closed broadly lower after a late rally was not enough to unwind earlier losses. The S&P 500 closed down 0.3%, while the NASDAQ underperformed alongside a rotation away from growth stocks, closing 1.1% lower. The Dow Jones bucked the trend, finishing up 0.2%.

The ASX 200 closed flat yesterday, erasing early gains of as much as 0.4%.

Interest Rates: Treasury yields were lower across the curve, as traders shunned risk. The 2-year yield ranged between a high of 3.89% and a low of 3.64%, before closing down 5 basis points at 3.78%. The 10-year yield also traded lower, ending the session down 3 basis points at 3.31% after ranging between a high of 3.37% and a low of 3.26%.

Interest rate markets are attaching a 48% probability to a 25-basis point hike from the Fed in May and are pricing in cuts as early as September.

Aussie bond futures echoed movements in US markets. The 3-year government bond (futures) yield fell 3 basis points to 2.83%, while the 10-year (futures) yield closed 6 basis points lower at 3.22%.

Interest rate markets are pricing very little risk of another rate hike from the Reserve Bank (RBA) and are almost fully pricing a 25-basis point cut by the end of the year.

Foreign Exchange: The Aussie dollar is struggling to hold onto its recent run above the 0.6750 handle. The AUD/USD pair traded between a high of 0.6780 and a low of 0.6677 and is currently sitting around 0.6723. A close below the 0.6700/10 range may suggest some near-term weakness and a likely return to its trading range since early March between 0.6650-0.6750.

The USD dollar index appreciated slightly against a basket of major currencies. The DXY index increased from a low of 101.42 to a high of 101.92 before retracing to trade at around 101.92 at the time of writing.

Commodities: Commodity prices largely drifted sideways overnight. The WTI price of oil remains above the US$80 per barrel level, while gold is holding onto its run above US$2,000 per ounce.

Australia: The RBA Governor, Phillip Lowe, gave a speech to the National Press Club yesterday.

The Governor reiterated that the decision to pause was made to provide time to assess the lagged impacts of rate hikes to date. Lowe added that a pause does not imply the end of the cycle and continued to flag that <u>some</u> further tightening <u>may well be</u> needed.

However, the Governor in the question-and-answer session also said that the RBA is prepared to make slower progress on reaching the inflation target compared to other major central banks. It suggests that we may have to see a significant upside surprise in the key pieces of economic data – like inflation, employment and retailing - for the RBA to hike again.

On inflation, the RBA appears less worried about sticky services prices but identified ongoing supply issues in the rental and energy markets as key areas of concern.

The RBA is noticeably more troubled by the rapid slowing in household spending and highlighted the risks to consumption as a large share of households roll off fixed rate mortgages this year. Though it was noted in the Q&A that most reports of household stress are coming from renters rather than mortgagors.

Eurozone: The services purchasing managers' index (PMI) was finalised at 55.0 in March, slightly below the preliminary reading of 55.6. Despite the downward revision, the result was the strongest since May 2022 and marks the third consecutive reading above the threshold of 50, indicating an expansion in activity.

New Zealand: The Reserve Bank of New Zealand (RBNZ) surprised markets and economists yesterday, hiking the official cash rate by 50 basis points to 5.25% - its highest level since November 2008. Consensus was for the RBNZ to step down the rate of hiking to smaller 25-basis point increments, but the central bank maintained the rapid pace of tightening even as the economy heads towards a recession. The decision underlines the RBNZ's determination to get inflation back to target as quickly as possible to avoid the risk of an unwanted shift up in inflation expectations. This stands in stark contrast to the RBA's approach of trying to lock in the employment gains from the pandemic, while brining inflation back to target within "reasonable time".

United Kingdom: The services PMI was finalised at 52.9 in March, marginally higher than the flash reading of 52.8. The result represents a slight softening in conditions compared to February (53.5) but continues to suggest expansion in services activity.

United States: US companies added fewer jobs than forecast in March, according to data from the ADP research institute. Employment rose 145k in the month, falling short of consensus expectations for a 210k increase. This was partly offset by an upward revision to February's reading of around 20k jobs. The result points to a continuing moderation in employment gains, though the monthly rate of jobs growth remains above the long-run average. A cut in payrolls was reported in manufacturing, financial services, and professional services industries, suggesting that job shedding which started at large tech companies may be beginning to spread.

The trade balance printed at -$70.5bn in February, the largest deficit in four months. Both imports and exports declined in February, reflecting a fall in merchandise trade. Though, exports fell more than imports, driving the widening in the trade deficit.

The S&P services PMI was finalised at 52.6 in march, down from a preliminary reading of 53.8. Despite the revision, the result was the strongest since June 2022 and points to a recent acceleration in services activity.

In contrast, the March ISM services PMI came in at 51.2, its weakest print in three months. This followed a reading of 55.1 in February. The ISM report indicated there was a further easing of price pressures in the services industry in March, though this was accompanied by a sharp deterioration in new orders. The prices paid index softened to 59.5, its lowest reading since July 2020.

Today's key data and events:

AU Trade Bal. Feb exp $12.6bn prev $11.7bn (11:30am)
AU RBA Financial Stability Review (11:30am)
CH Caixin Serv. PMI Mar exp 55.0 prev 55.0 (11:45am)
EZ Ger. Indust. Production Feb exp -0.1% prev 3.5% (4pm)

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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