Morning Report

Thursday, 20 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,366	0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,897	-0.2%	10 yr bond	3.53		0.02		90 day BBSW	3.68	0.02
Japan Nikkei	28,607	-0.2%	3 yr bond	3.19		0.04		2 year bond	3.20	0.08
China Shanghai	3,533	-0.7%	3 mth bill rate	3.80		0.04		3 year bond	3.18	0.09
German DAX	15,895	0.1%	SPI 200	7,370.0		-7		3 year swap	3.66	0.00
UK FTSE100	7,899	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.51	0.04
Commodities (close & change)*			TWI	60.8	-	-	60.8	**United States**		
CRB Index	275.0	-3.9	AUD/USD	0.6728	0.6741	0.6690	0.6713	3-month T Bill	4.96	-0.02
Gold	1,994.92	0.0	AUD/JPY	90.21	90.59	90.16	90.41	2 year bond	4.24	0.05
Copper	8,963.75	-50.6	AUD/GBP	0.5414	0.5423	0.5386	0.5398	10 year bond	3.59	0.02
Oil (WTI futures)	79.16	-1.7	AUD/NZD	1.0835	1.0853	1.0812	1.0824	**Other (10 year yields)**		
Coal (thermal)	212.30	8.7	AUD/EUR	0.6132	0.6142	0.6118	0.6127	Germany	2.52	0.04
Coal (coking)	255.00	-3.7	AUD/CNH	4.6297	4.6440	4.6222	4.6283	Japan	0.48	0.01
Iron Ore	116.45	-0.9	USD Index	101.71	102.23	101.66	101.92	UK	3.86	0.11

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: Market sentiment continued to improve as concerns surrounding the US banking system ease. The VIX index, which measures equity market volatility, closed at its lowest level since November 2021 – suggesting some relative calm in markets. US corporate earnings drove equity valuations, helping key bourses unwind early losses to finish the day unchanged. US treasuries gained, bolstering the US dollar. Hotter-than-expected inflation in the UK saw Gilt yields strike multi-week highs, while markets shortened the odds of further policy tightening.

Share Markets: US equities finished broadly unchanged after paring early losses. The S&P 500 and the NASDAQ closed flat, while the Dow Jones shed 0.2%.

A slew of corporate earnings drove price action overnight given the lack of top tier data. Bank earnings were of particular focus given recent developments. Lending activity is proving a source of strength for the large US banks alongside Fed rate hikes, though trading and dealmaking revenue was more mixed. Results pointed to strong deposit inflows to the large banks, though they were seeing tougher competition from higher yielding money market funds. Meanwhile, the four largest US lenders wrote off a combined US$3.4bn in bad consumer debts in the first quarter of 2023, up 73% on a year earlier. Each bank bolstered their provisions, providing another sign that the outlook for the US economy is slowly deteriorating.

The ASX 200 eked out a 0.1% gain yesterday as a rise in mining and materials stocks more than offset declines in other sectors.

Interest Rates: US interest rates were higher across the curve. The 2-year treasury yield gained 5 basis points to close at a 5-week high of 4.24%. The 10-year treasury yield climbed 2 basis points to 3.59%.

Interest rate markets are pricing a near 90% probability of a 25-basis point hike from the Fed in May. Expectations for rate cuts have been pushed back, with the first cut fully priced for January next year.

Aussie bond futures yields were also higher. The 3-year government bond (futures) yield was up 4 basis points to 3.19%, while the 10-year (futures) yield gained 2 basis points to 3.53%. Both closed at a more than 5-week high.

Interest rate markets have revised their Reserve Bank (RBA) rate hike expectations sharply this week. Markets are pricing around a 25% chance of a 25-basis point hike in May and see a 75% chance the RBA hikes between now and August. At the start of the week, there was just a 14% chance of a hike in May and a 25% chance of a hike by August.

British Gilt yields gained on the back of a stubbornly hot inflation report. The 2-year yield climbed 14 basis points to 3.82%, its highest close in nearly 2-months - since 24 February. The 10-year gild yield was up 11 basis points to 3.85%, a more than 6-week high.

A 25-basis point hike from the Bank of England (BoE) is now fully price by markets, with a peak in the Bank Rate priced at 4.9%. This suggests a total of three more rate hikes from the BoE by September.

Foreign Exchange: The Aussie dollar was reluctant to stray from its recent range, holding between a low of 0.6690 and high of 0.6741. The AUD/USD pair is currently trading around 0.6713.

The US dollar gained modestly against a basket of its G10 peers. The DXY index rose from a low of 101.66 to a high of 102.23, before retracing to trade around 101.92 at the time of writing.

The US dollar hit a near 6-week high against the Yen as news leaked that Bank of Japan officials are wary of altering their yield curve control policy too soon after recent banking sector developments. The USD/JPY traded between a low of 133.96 and 135.13. The AUD/JPY cross also struck a 6-week high of 90.59.

Commodities: Commodity prices were broadly lower overnight. The West Texas Intermediate (WTI) price of oil fell 2.1%, to close at US$79.16 per barrel, its lowest level since OPEC announced a surprise cut to oil output.

Australia: The six-month annualised growth rate in the Westpac-Melbourne Institute leading index, which indicates the likely pace of economic activity over the next three to nine months relative to trend, lifted slightly to -0.75% in March, from -0.79% in February.

Japan: Monthly growth in industrial production was finalised at 4.6% in February, up from a preliminary reading of 4.5%. This was the strongest monthly gain since June 2022 and trimmed the annual decline in production to just 0.5%.

Eurozone: Headline annual inflation was finalised at 6.9% in March, unchanged from the preliminary reading. This was an improvement on February's reading of 8.5% and marked the fifth consecutive monthly decline since peaking in October.

The core consumer price index (CPI) was similarly unchanged at 5.7% in annual terms – it's highest level on record.

United Kingdom: The CPI rose 0.8% in March, moderating from a 1.1% gain in March but stubbornly higher than consensus expectations which centred on a 0.5% gain. Annual inflation was also hotter than expected printing at 10.1% in March down from 10.4% in February. This was the seventh consecutive month annual headline inflation has come in at double-digits.

Core inflation gained 6.2% over the year to March, unchanged from February and stronger than market expectations for a 6.0% reading. The inflation report is yet another sign of sticky price pressures driven by services.

This comes as little surprise given the persistent strength of the labour market and wages growth still running well above levels that are consistent with normalising inflation. The inflation figures secure further policy action from the BoE in May and point to a prolonged inflation fight.

United States: The Federal Reserve's Beige Book, which surveys economic agents across the 12 Fed districts, suggested that economic activity was little changed in recent weeks. The report pointed to some moderation in employment growth and a slowing in price pressures, echoing the official data. The report notes "contacts expected further relief from input cost pressures but anticipated changing their prices more frequently compared to previous years", pointing to a potential change in inflation expectations and the inflation psychology. The Beige Books is therefore unlikely to shift the current expected trajectory for Fed rate hikes, supporting a hike in May.

The report indicated that lending volumes and loan demand from households and businesses had declined, pointing to a tightening in the supply of credit following recent developments in the US banking system. Harsher credit conditions were concentrated in the San Francisco district, where the Silicon Valley Bank (SVB) was located, while other districts reported less disruption. It was noted that recent developments "had limited impact on recent business activity, though a small share of contacts reported a modest decrease in credit availability". This is consistent with the expectations of Fed officials who foreshadowed a tightening in conditions but flagged uncertainty around the extent of tightening.

See today's key data and events overleaf.

Today's key data and events:

NZ CPI Q1 exp 1.5% prev 1.4% (8:45am)

EZ Cons. Conf. Apr Prel. exp -18.5 prev -19.2 (12am)

US Philadelphia Fed Index Apr exp -19.2 prev -23.2 (10:30pm)

US Existing Home Sales Mar exp -1.8% prev 14.5% (12am)

US Leading Index Mar exp -0.7% prev -0.3% (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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