

Morning Report

Tuesday, 7 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,329	0.6%			Last	Overnight Chg		Australia			
US Dow Jones	33,431	0.1%	10 yr bond		3.78	0.02		90 day BBSW	3.63	0.00	
Japan Nikkei	28,238	1.1%	3 yr bond		3.54	0.02		2 year bond	3.51	-0.09	
China Shanghai	3,482	-0.2%	3 mth bill rate		3.68	0.00		3 year bond	3.51	-0.09	
German DAX	15,654	0.5%	SPI 200		7,279.0	-12		3 year swap	3.99	-0.08	
UK FTSE100	7,930	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.77	-0.14	
Commodities (close & change)*			TWI		61.4	-	-	61.4	United States		
CRB Index	273.6	-1.5	AUD/USD		0.6749	0.6770	0.6716	0.6727	3-month T Bill	4.73	-0.01
Gold	1,846.80	-9.7	AUD/JPY		91.78	91.95	91.37	91.49	2 year bond	4.89	0.03
Copper	8,965.50	22.9	AUD/GBP		0.5612	0.5620	0.5589	0.5598	10 year bond	3.98	0.03
Oil (WTI futures)	80.55	0.9	AUD/NZD		1.0851	1.0893	1.0839	1.0870	Other (10 year yields)		
Coal (thermal)	190.85	-8.5	AUD/EUR		0.6356	0.6362	0.6295	0.6301	Germany	2.75	0.03
Coal (coking)	368.33	0.8	AUD/CNH		4.6670	4.6809	4.6613	4.6764	Japan	0.51	0.00
Iron Ore	124.55	0.3	USD Index		104.63	104.69	104.16	104.33	UK	3.87	0.02

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: US equities edged higher as investors positioned ahead of Fed Chair Powell's two-day Congressional testimony and Friday's important US jobs data. US bond yields increased slightly, while the US dollar was lower. European bond yields were also up on the back of hawkish comments from several European Central Bank officials.

Share Markets: US equities edged higher ahead of important economic data to be released later this week. The S&P 500 and the Dow both lifted by 0.1% on the day. The Nasdaq closed 0.1% lower.

Yesterday, the ASX 200 closed 0.6% higher. This was the largest one day move since mid-February. Financials stocks led the market higher, with 8 out of 11 sectors recording gains.

Interest Rates: US bond yields increased across the yield curve. The 2-year and 10-year yield both increasing by 3 basis points, to 4.89% and 3.98%, respectively.

Interest-rate markets are pricing the Federal funds rate to be 31 basis points higher at the March meeting, implying a more than 100% chance of a 25-basis-point hike and some chance of a more aggressive 50-basis-point move. Markets are expecting rates to peak at around 5.5% in July.

Australian government bond yield (futures) ended the session higher. The 3-year and 10-year government bond yield (futures) were both 2 basis

points higher, at 3.54 and 3.78%, respectively.

Interest-rate markets are pricing 20 basis points of tightening at the RBA's March meeting and expect the cash rate to peak at around 4.2% in late 2023. Market economists are unanimously expecting the Reserve Bank Board to hike by another 25 basis points, to 3.6%, when it meets later today.

Currencies: The US dollar declined against a basket of major currencies. This reflected the strength shown by the euro on the back of hawkish comments from ECB officials and higher European yields. The USD Index fell from a high of 104.69 to a low of 104.16, before settling at 104.33.

The euro increased from EUR/USD 1.0632 to reach a high of EUR/USD 1.00694, before settling at EUR/USD 1.0678.

The AUD/USD was volatile within a narrow range of 0.6770 and 0.6716, ahead of the RBA Board meeting later today. The policy statement released today will provide near term direction for the pair. The pair is currently trading at 0.6727.

Commodities: Commodities were mixed. Oil, copper, coking coal and iron ore were higher. Gold and thermal coal were lower. West Texas Intermediate (WTI) futures contract increased to be trading at above USD80 per barrel.

Australia: The Melbourne Institute's Inflation gauge showed that headline inflation remained

uncomfortably high, increasing by 6.3% in annual terms to February 2023. This was slightly lower than the 6.4% read recorded in January. Price increases were driven by private motoring and new dwellings. In underlying terms, which excludes volatile and abrupt price movements, inflation increased by 4.9% through the year to February 2023. This was down from the 5.3% recorded in January and in line with the November 2022 outcome.

The Westpac Group spending tracker index showed a notable spending pull-back over the second half of February. Spending on both services and non-food retail recorded a pull-back. Importantly, lower spending implies declines in real consumption, or consumption after account for inflation. We recently noted that real consumption per capita had fallen over the December quarter 2022.

New Zealand: Construction work declined by 1.6% over the December quarter. This was a step down on the growth of 5.3% recorded over the September quarter. Residential construction fell by 2.6% over the December quarter, while non-residential construction increased by a modest 0.4% over the quarter.

Eurozone: Retail sales increase by 0.3% over the month of January 2023. This was weaker than the 0.6% increase the market was expecting and comes on the back of an upwardly revised 1.7% decline in retail trade over the month of December. Sales were up for food, drinks and tobacco and non-food goods. On-line trade dropped for a fourth consecutive month and fuel sales declined. On a yearly basis, retail sales declined 2.3% in January.

The Sentix Investor Confidence index declined to -11.1 index points in March 2023, from the -8.0 points recorded in February. The decline was worse than the -5.5 index points the market was expecting. The outlook or expectations sub index drove the weak read, falling to -13.0 index points, from the -6.0 points recorded in February.

European Central Bank (ECB) officials were out in force ahead of the ECB's March meeting scheduled for next week. Austrian central bank chief Robert Holzmann backed 50 basis point increases at each of the ECB's next four meetings – taking the deposit rate to 4.5%. ECB Chief Economist Philip Lane acknowledged the need for more hikes after next week's meeting but warned against "autopilot" policy. Portuguese central bank chief Mario Centeno highlighted that inflation is even undershooting the ECB's forecasts, suggesting a more data driven approach to policy setting. This

comes on the back of ECB President Lagarde statement from yesterday that the ECB is "very likely" to hike by 50 basis points this month.

United States: New factory orders for manufactured goods fell 1.6% over the month of January. This was broadly in line with the 1.8% decline the market was expecting and comes on the back of a revised 1.7% increase over December. Transportation orders, and in particular contracts for large Boeing passenger planes, declined sharply. Excluding transportation, factory orders went up 1.2% over January, rebounding from the 1.2% fall recorded in December. New orders for fabricated metal products, electrical equipment, appliances, and components, and machinery all increased over the month.

Durable goods orders in the US, which measure orders of goods meant to last at least three years, declined by 4.5% over the month of January. The fall was driven by transportation equipment. Excluding transportation, durable goods orders were up by 0.7% over the month. Orders increased for machinery, and computers and electronic products.

Today's key data and events:

AU Trade Balance Jan exp \$12.5bn prev \$A12.2bn
(11:30am)

AU RBA Board Meeting (2:30pm)

Cash Rate Target exp 3.60% prev 3.35%

EZ Ger. Factory Orders Jan (6:00pm)

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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