Morning Report

bankSA

Tuesday, 14 March 2023

Equities (close & % change)		
S&P/ASX 200	7,109	-0.5%
US Dow Jones	31,819	-0.3%
Japan Nikkei	27,833	-1.1%
China Shanghai	3,426	1.2%
German DAX	14,959	-3.0%
UK FTSE100	7,549	-2.6%

Commodities (close & change)*		
CRB Index	264.7	-0.3
Gold	1,913.70	45.4
Copper	8,848.00	14.0
Oil (WTI futures)	74.80	-1.9
Coal (thermal)	197.50	0.2
Coal (coking)	363.33	-0.7
Iron Ore	132.25	0.7

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	3.35	-0.17
3 yr bond	2.94	-0.27
3 mth bill rate	3.68	-0.26
SPI 200	6,974.0	-132

FX Last 24 hrs	Open	High	Low	Current
TWI	60.4	-	-	60.4
AUD/USD	0.6615	0.6717	0.6601	0.6667
AUD/JPY	89.02	89.83	87.80	88.82
AUD/GBP	0.5477	0.5521	0.5458	0.5473
AUD/NZD	1.0765	1.0785	1.0697	1.0720
AUD/EUR	0.6192	0.6261	0.6169	0.6213
AUD/CNH	4.5829	4.6089	4.5470	4.5688
USD Index	104.20	104.39	103.48	103.62

Interest rates (close & change)		
Australia		
90 day BBSW	3.64	0.00
2 year bond	3.25	-0.11
3 year bond	3.21	-0.13
3 year swap	3.50	0.02
10 year bond	3.52	-0.06
United States		
3-month T Bill	4.65	-0.14
2 year bond	3.98	-0.61
10 year bond	3.57	-0.13
Other (10 year yields)		
Germany	2.26	-0.25
Japan	0.35	-0.06
UK	3.37	-0.27

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: The impacts from the failure of Silicon Valley Bank (SVB) and Signature Bank continued to reverberate through financial markets and drove price action across the globe.

Bond yields plummeted as investors flocked to the safety of government bonds. The US 2-year yield plummeted by 61 basis point in one session – the biggest one day drop in decades. Longer-term bond yields also plunged. Investors pulled back their expectations of future interest rate hikes from the US Fed as a 50-basis-point hike is now all but off the table and as the likelihood of a pause at the March meeting grows.

Bank equity prices plunged and investors sold positions in US banks to reduce risk and their exposure to any potential contagion to other banks. Broader equity market indices were volatile through the day as reduced expectations of interest rate hikes impacted equity pricing.

The US dollar dropped sharply in line with reduced expectations of interest rate hikes.

Share Markets: Share markets were volatile through the day and major US indices moved from gains to losses over the day. The S&P 500 was unable to sustain an intra-day rebound and ended the session 0.2% lower. The Dow Jones was down 0.3%, while the Nasdaq bucked the trend and closed 0.4% higher.

Bank stocks were sold off heavily, particularly other regional banks. The S&P 500 banks subindex dropped 7.0% on the day, with diversified banks down 4.7%, while regional banks plunged 14.9%.

Volatility in share markets contributed to the VIX Index jumping to above 30 for the first time since October.

The ASX 200 fell 0.5% yesterday and futures are pointing to a further drop on the open today.

Interest Rates: Bond yields continued to plummet on the day as investors sought the safety of government bonds. The US 2-year treasury yield plunged by 61 basis points, to 3.98%. This was the largest one day drop in decades and extends the move over recent days to over 100 basis points in only three days – moves not seen in decades. In fact, the 2-year yield was above 5% only three days ago.

A plunge of this magnitude over three days represents a move of 8 standard deviations (based on the last 30 years of data). This compares with a 5 standard deviation move during the collapse of Lehman Brothers ahead of the GFC and the terrorist attacks of 9/11.

The 10-year yield also dropped sharply, but not to the same extent as the 2-year yield. The 10-year yield dropped 13 basis points, to 3.57%.

Interest-rate markets have significantly scaled back their expectations of hiking from the Fed following the failure of SVB bank. Interest-rate markets are currently pricing in 14 basis points of hikes at the upcoming March Fed meeting, implying around a 57% chance of a 25-basis-point hike. A March pause in now firmly on the table and many economic analysts have moved to calling a pause as their base case. Markets are pricing the peak in the Fed funds rate to be at around 4.75% and occur by May, with cuts priced in from June onwards. This contrasts sharply with expectations prior to the collapse of SVB. In fact, in the middle of last week, markets were expecting the Fed funds rate to peak at around 5.70% later in 2023.

Credit Default Swaps (CDS), which provide investors insurance against bond issuers defaulting on their payments, jumped sharply, particularly for financial firms.

Australian government bond yields also dropped sharply but not to the same extent as US yields. The Australian 3-year government bond yield (futures) plunged 27 basis points, to 2.94%. The 10-year government bond yield (futures) dropped 17 basis points, to 3.35%.

Market pricing for future moves by the Reserve Bank (RBA) has become volatile. However, interest-rate markets are now pricing a pause at the upcoming April RBA meeting, with a peak of 3.85% priced in late-2023.

Foreign Exchange: The US dollar dropped sharply against a basket of major currencies in line with the plunge in US interest rates, and with lower expectations for future hikes and the peak in the Fed funds rate. The USD Index dropped from a high 104.39 to a low of 103.48, before settling at 103.62.

A weaker US dollar supported the AUD/USD pair, despite lower risk sentiment across the globe. The pair increased from a low of 0.6601 to a high of 0.6717, before pulling back to 0.6667.

Commodities: Gold continued to rise on safe-haven demand, increasing to US$1,913.70 per ounce. Copper and iron ore were also higher, while oil prices declined.

Australia: There were no major economic data releases yesterday.

New Zealand: Services sector activity expanded in February as the performance of services index rose to 55.8 in the month. This was up from 54.7 in January. A reading above 50 indicates expansion. The index has now been above 50 for 12 consecutive months. Four of the five sub-indices rose in the month and all five sub-components remain in expansionary territory, with new orders rising to 57.1, from 54.8 in January.

United States: Authorities continued to work through the resolution of Silicon Valley Bank (SVB) as clients being regaining access to their accounts.

Officials across the US, EU and the UK emphasised that there were no systemic risks to other parts of the financial sector.

UK authorities confirmed that HSBC would take over the UK subsidiary of SVB, after purchasing the bank for a notional sum of £1. The UK Chancellor Jeremy Hunt stated that deposits would be "protected, with no taxpayer support". It was also reported the HSBC plans to inject £2 billion of liquidity to support the bank and that it will continue without major changes.

SVB continues to explore alternative options for various divisions of the bank, including the investment banking and venture capital arms, and private credit platforms.

Today's key data and events:

NZ Net Migration Jan prev 4,581 (8:45am)

AU Melb Inst Consumer Confidence Mar prev 78.5 (10:30am)

AU NAB Business Survey Feb (11:30am)
- Business Confidence prev 6
- Business Conditions prev 18

UK ILO Unemployment Rate Jan exp 3.8% prev 3.7% (6pm)

US Consumer Price Index (11:30pm)
- Headline m/m exp 0.4% prev 0.5%
- Headline y/y exp 6.0% prev 6.4%
- Ex Food and Energy m/m exp 0.4% prev 0.4%
- Ex Food and Energy y/y exp 5.5% prev 5.6%

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.

Jarek Kowcza, Senior Economist
Ph: +61 481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@banksa.com.au
+61 401 102 789