

Morning Report

Tuesday, 18 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,382	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	33,987	0.3%	10 yr bond	3.46		0.09		90 day BBSW	3.66	0.01
Japan Nikkei	28,515	0.1%	3 yr bond	3.04		0.08		2 year bond	3.01	0.04
China Shanghai	3,549	1.4%	3 mth bill rate	3.70		0.04		3 year bond	2.99	0.04
German DAX	15,790	-0.1%	SPI 200	7,376.0		-17		3 year swap	3.51	0.00
UK FTSE100	7,880	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.37	0.05
Commodities (close & change)*			TWI	60.7	-	-	60.7	United States		
CRB Index	276.8	0.6	AUD/USD	0.6706	0.6719	0.6681	0.6703	3-month T Bill	4.87	-0.06
Gold	1,995.16	0.0	AUD/JPY	89.74	90.16	89.59	90.12	2 year bond	4.19	0.10
Copper	9,031.25	-35.5	AUD/GBP	0.5399	0.5418	0.5391	0.5415	10 year bond	3.60	0.09
Oil (WTI futures)	80.83	-1.7	AUD/NZD	1.0809	1.0850	1.0802	1.0839	Other (10 year yields)		
Coal (thermal)	183.00	2.0	AUD/EUR	0.6102	0.6135	0.6097	0.6134	Germany	2.47	0.03
Coal (coking)	265.00	-7.5	AUD/CNH	4.6061	4.6175	4.6000	4.6136	Japan	0.49	0.01
Iron Ore	117.35	0.6	USD Index	101.61	102.23	101.53	102.10	UK	3.69	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: There was little top tier news to provide direction for markets. However, bond yields increased as investors assessed the prospects of further rate hikes, which were supported by comments from Richmond Fed President Thomas Barkin. Equities recovered from early losses to finish in the green and the US dollar strengthened against a basket of major currencies.

Share Markets: US equities finished the session in the green. The S&P 500, Nasdaq and Dow Jones all finished 0.3% higher on the day. This followed earlier losses as the prospect of higher rates weighed on equity valuations. The earnings season has just kicked off and has reportedly had its best start in a decade. 30 S&P 500 companies have reported so far, which account for 10% of the value of the index. Of those, 90% have beaten analyst earnings per share estimates.

Interest Rates: Bond yields rose as investors assessed the prospect of more hikes from the Fed. The US 2-year yield rose 9 basis points, to 4.19%. The 10-year was 10 basis points higher, at 3.60%.

Interest-rate markets are pricing an 88% probability of a 25-basis-point hike from the Fed in May and expect the Fed funds rate to peak at around 5.11%. Investors continue to price in cuts in the second half of 2023 and into 2024, with around 75 basis points of cuts priced in from the 5.11% estimated peak by the end of January 2024.

Australian government bond yields mimicked movements in the US. The 3-year government bond yield (futures) rose 8 basis points, to 3.04%. The 10-year government bond yield (futures) was 9 basis points higher, at 3.46%.

Interest-rate markets are pricing in a 12% probability of a 25-basis-point hike at the RBA's May meeting, with a peak of 3.68% currently priced for July. Market expectations for cuts from the RBA have decreased over recent days and weeks. Interest-rate markets now only have 7 basis points of cuts priced in from the current 3.60% rate by the end of 2023. This compares with a full 25-basis-point cut being priced prior to the Easter break.

Foreign Exchange: The US dollar increased against major currencies as bond yields drifted higher. The USD Index traded in a narrow range during the Asian session and the beginning of the London session, before it began to drift higher during the New York session. The USD Index rose from a low of 101.53 during the cross over between the Asian and London sessions, to a high of 102.23 during New York trade. It settled at 102.10 at the end of the session.

The AUD/USD pair traded in a narrow range and weakened slightly against the backdrop of a stronger US dollar. The pair declined from a high of 0.6719 to a low of 0.6681, before recovering to trade at 0.6703, not far from the 0.6706 open.

Commodities: Oil prices pulled back but remained above US\$80 per barrel. Copper was lower, iron ore rose, while gold finished flat.

Australia: There were no major economic data releases yesterday.

United States: New York manufacturing activity expanded for the first time in five months as the empire manufacturing index surprised to the upside. The reading came in at +10.8 in April, following a -24.6 reading in March. This was well above consensus expectations of -18.0 and was the strongest reading since July 2022. New orders surged by 46.8 index points to a one-year high of 25.1. Shipments were also higher in April. Prices paid declined while prices received rose. Inventories and the number of employees were also higher.

Sentiment among homebuilders increased for a fourth consecutive month as the NAHB housing market index rose to 45 in April. This was in line with consensus expectations and follows a reading of 44 in March. Despite the positive reading, sentiment remains weak and below the long-term average.

Richmond Fed President Thomas Barkin said that the Fed still has more work to do and that he would like to see more evidence that inflation is easing back to the Fed's 2% target. He added that the current level of borrowing rates was not unusual historically and that "our economy works just fine with rates at this level" and also stated that "the labour market has moved from red-hot to merely hot". Regarding the issues in the US banking sector, he said that he was "pretty reassured by what I'm seeing but you never want to declare victory".

Today's key data and events:

AU RBA Board Meeting Minutes (11:30am)

CN GDP Q1 y/y exp 3.9% prev 2.9% (12pm)

CN Industrial Production Mar y/y/ exp 4.4% (12pm)

CN Retail Sales Mar y/y exp 7.5% (12pm)

EU ZEW Expectations Apr prev 10.0 (7pm)

EU Trade Balance Feb prev -€11.3bn (7pm)

UK ILO Unemployment Rate Feb exp 3.7% prev 3.7% (4pm)

US Building Permits Mar exp -6.5% prev 15.8% (10:30pm)

US Housing Starts Mar exp -3.5% prev 9.8% (10:30pm)

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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