

Morning Report

Monday, 20 February 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,347	-0.9%			Last	Overnight Chg		Australia		
US Dow Jones	33,827	0.4%	10 yr bond	3.79				90 day BBSW	3.47	-0.01
Japan Nikkei	27,513	-0.7%	3 yr bond	3.50				2 year bond	3.48	-0.01
China Shanghai	3,379	-0.8%	3 mth bill rate	3.64				3 year bond	3.49	-0.01
German DAX	15,482	-0.3%	SPI 200	7,273.0				3 year swap	3.93	-0.01
UK FTSE100	8,004	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.78	-0.04
Commodities (close & change)*			TWI	62.4	-	-	62.4	United States		
CRB Index	267.6	-2.7	AUD/USD	0.6879	0.6885	0.6812	0.6872	3-month T Bill	4.67	-0.01
Gold	1,842.36	6.0	AUD/JPY	92.09	92.41	91.94	92.30	2 year bond	4.62	-0.02
Copper	8,974.25	-36.3	AUD/GBP	0.5736	0.5742	0.5699	0.5707	10 year bond	3.81	-0.05
Oil (WTI futures)	76.34	-2.1	AUD/NZD	1.0996	1.1031	1.0975	1.1019	Other (10 year yields)		
Coal (thermal)	187.80	-2.3	AUD/EUR	0.6446	0.6447	0.6408	0.6431	Germany	2.44	-0.04
Coal (coking)	381.00	6.3	AUD/CNH	4.7261	4.7307	4.6953	4.7255	Japan	0.51	0.00
Iron Ore	126.00	-0.5	USD Index	104.01	104.67	103.84	103.88	UK	3.52	0.02

Data as at 9:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: It was a quiet end to the week amid limited economic news and ahead of the US President's Day public holiday. US equities markets edged lower. The US dollar was broadly unchanged while yields edged lower, retracing some of the increases recorded in the previous session.

Share Markets: US share markets ended lower on the back of continued concerns that inflation is becoming stickier than previously thought. This opens the possibility for rates remaining elevated for longer, potentially hurting real economic activity. The S&P 500 ended 0.3% lower and the Nasdaq was 0.6% lower. The Dow ended 0.4% higher, recovering in late trade.

The ASX 200 declined by 0.9% on Friday on the back of speculation over more US interest rates increases. ASX technology stocks lead the decline.

Interest Rates: Bond yield edged lower across the US yield curve, retracting some of the significant increases recorded in the previous session. The US 2-year treasury yield declined by 2 basis points to 4.62%. The 10-year yield declined by 5 basis points lower to 3.81%.

Interest-rate markets are pricing in 28 basis points of tightening at the upcoming Fed meeting in March and expect the fed funds rate to peak at around 5.3% in mid-2023.

Australian government bond yields mirrored the moves recorded in the US. The Australian 3-year

government bond yield (futures) declined by 1 basis point to 3.50%, while the 10-year government bond yield (futures) declined by 4 basis points to 3.79%.

Interest-rate markets are pricing 18 basis points of tightening when the Reserve Bank Board meets next month. Markets are pricing the cash rate to peak above 4.2% in mid-2023.

Currencies: The US dollar edged lower on Friday amid strength in the Euro and the British pound. The USD Index declined from 104.01 to 103.84, before recovering to be sitting around 103.88.

The British Pound reached a high of GPD/USD 1.2049 after opening at 1.1993. Stronger than expected retail trade data in the UK provided the Pound with support.

The AUD/USD pair was broadly unchanged. The pair dropped to a low of 0.6812 before recovering during the New York session. The pair is currently trading around 0.6872.

Commodities: Commodities were generally lower. The West Texas Intermediate (WTI) futures contract declined and is now trading at USD76.34 per barrel.

Copper, thermal coal and iron ore were down. Gold and Coking coal were slightly up on the day.

United Kingdom: Retail sales increased 0.5% over the month of January 2023. This was well above the fall of 0.3% the market was expecting and comes on the back of a 1.2% decline recorded in December

2022. Non-store retailing (predominantly online retailers) sales volumes rose 2.0%, and sales at non-food stores increased 0.6% over the month.

United States: The Conference Board Leading Economic Index fell by 0.3% in January 2023. This was in line with what the market was expecting and comes on the back of the 0.8% decline recorded in December. The Index is down 3.6% over the past six months. Falling manufacturing orders, expectations of business conditions, and subdued credit conditions more than offset strengths in labour and equity market outcomes.

Import Price Index declined by 0.2% over the month of January 2023. This was in line with the fall of 0.1% the market was expecting. Imported fuel prices dropped 4.9% after declining 4.4% in December.

In Fed news, Tom Barkin, President the Federal Reserve Bank of Richmond, said that he favoured a 25-basis point hike at the last meeting on 1 February. He said “I like the 25 basis-point path. It gives us the flexibility to respond to data as it comes in...Moving inflation back to target will require more rate increase. How many of those, I think we will have to see.” Michelle Bowman, member of the Board of Governors of the Federal Reserve Bank, noted that inflation remains “much too high” and “we’ll have to continue to raise the federal funds rate until we start to see a lot more progress”.

Today’s key data and events:

EZ Consumer Confidence Feb (2am)

UK Rightmove House Prices Feb prev 0.9% (11:01am)

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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