

Morning Report

Friday, 24 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,969	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	32,105	0.2%	10 yr bond	3.24				90 day BBSW	3.70	0.01
Japan Nikkei	27,420	-0.2%	3 yr bond	2.81				2 year bond	2.94	-0.07
China Shanghai	3,445	0.6%	3 mth bill rate	3.52				3 year bond	2.91	-0.08
German DAX	15,210	0.0%	SPI 200	6,950.0				3 year swap	3.31	-0.02
UK FTSE100	7,500	-0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.29	-0.08
Commodities (close & change)*			TWI	60.5	-	-	60.5	United States		
CRB Index	257.8	-0.9	AUD/USD	0.6685	0.6755	0.6670	0.6684	3-month T Bill	4.48	-0.10
Gold	1,993.36	0.0	AUD/JPY	87.86	88.38	86.93	87.47	2 year bond	3.83	-0.10
Copper	8,899.50	137.3	AUD/GBP	0.5449	0.5476	0.5435	0.5438	10 year bond	3.43	-0.01
Oil (WTI futures)	69.48	-1.4	AUD/NZD	1.0746	1.0758	1.0676	1.0695	Other (10 year yields)		
Coal (thermal)	184.05	-2.0	AUD/EUR	0.6158	0.6184	0.6152	0.6172	Germany	2.20	-0.13
Coal (coking)	355.33	2.3	AUD/CNH	4.5861	4.6053	4.5566	4.5656	Japan	0.32	-0.01
Iron Ore	117.90	-0.3	USD Index	102.56	102.64	101.92	102.60	UK	3.36	-0.09

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: Risk sentiment was driven by continued rate hikes from central banks, in addition to comments to support confidence in the banking sector and commitment by policymakers to contain uncertainty.

The Bank of England and Norway's Norges Bank both hiked by 25 basis points, while the Swiss National Bank hiked rates by 50 basis points. US regulators "would be prepared to take additional actions if warranted" to protect depositors according to US Treasury Secretary, Janet Yellen.

Bond yields declined, with short-term rates falling by a larger amount than longer-term yields. Equities were higher, while the US dollar was broadly unchanged against a basket of major currencies.

Global Banking Developments: US Treasury Secretary, Janet Yellen, noted that regulators "would be prepared to take additional actions if warranted" to protect depositors. Despite the vote of support for the sector, banking stocks struggled and declined on the day. The S&P 500 subindex of large banks declined by 1.0% on the day, while regional banks dropped 2.3%.

The Swiss financial regulator, FINMA, defended its decision to write down the value of Additional Tier 1 capital instruments to zero during UBS' takeover of Credit Suisse. The regulator noted that the AT1 instruments "contractually provide that they will be

completely written down in a 'viability event', in particular if extraordinary government support is granted".

Regulators at the European Central Banks are reconsidering their treatment of bank risk following the concerns among US regional banks and UBS' takeover of Credit Suisse. Regulators are considering how to improve liquidity management and gain a better understand of deposit outflows during a crisis scenario, including looking into deposit outflow assumptions used to model as 30-day stress scenario as part of the Liquidity Coverage Ratio requirements.

Share Markets: Gains in megacap companies Apple and Microsoft support the equity market and contributed to gains for the broad indices on the day. The S&P 500 was 0.3% higher, the Nasdaq jumped 1.0% and the Dow Jones rose 0.2%.

The ASX 200 fell 0.7% yesterday and futures are pointing to a further drop on the open today.

Interest Rates: Interest rate volatility continued as the US 2-year treasury bond yield declined by 10 basis points on the day, to 3.83%. Moves in longer-term bonds were more muted, with the US 10-year treasury yield down 1 basis point, to 3.43%.

Interest-rate markets continue to price cuts from the Fed sooner rather than later. A further 10 basis points of hikes are currently priced for the May

meeting, before rates are expected to begin to decline. Interest-rate markets currently expect a full 100 basis points of cuts by the end of 2023.

Movements in Australian bonds somewhat mimicked moves in the US. The 3-year Australian government bond yield (futures) declined by 7 basis points, to 2.81%. The 10-year government bond yield (futures) was 5 basis points lower, to 3.24%.

Foreign Exchange: The US dollar initially weakened against a basket of major currencies, extending losses over recent sessions, to a low of 101.92. However, the USD Index recovered ground during the US session, trading to a high of 102.64, and closed largely unchanged from where it opened, at 102.60.

The AUD/USD pair initially rose against a weaker USD, increasing from a low of 0.6670 to a high of 0.6755, before pulling back and closing at 0.6684, almost exactly where it had opened the session.

Commodities: Oil declined on the day and fell below US\$70 per barrel. Iron ore also weakened. Gold was flat, while copper rose.

Australia: Media reports suggest the Federal Government will revise up its forecast for net overseas migration (NOM) in the upcoming Budget to 350k for 2022-23, from the current estimate of 235k. We had noted in previous reports that NOM was likely to be at least 100k above the previous Budget forecasts for 2022-23.

United Kingdom: The Bank of England hiked rates by 25 basis points, to 4.25%. The move was in line with market expectations. The decision was carried with a 7-2 vote, with the dissenters voting for rates to remain on hold. Inflation and price stability concerns took precedence over banking stability issues. Volatile factors that were likely to unwind were viewed as drivers of yesterday's stronger-than-expected inflation print. The Bank left its options open regarding possible future hikes and will reassess the economic outlook and update its economic projections at the May meeting. Interest-rate markets are pricing a little over one more 25 basis point hike over coming meeting before rates are expected to peak around the middle of 2023 and then begin to decline through the latter part of the year.

Eurozone: Consumer confidence was effectively unchanged in March, falling to -19.2 in the month, from -19.1 in February. The outcome was below consensus expectations of -18.2. Confidence has remained firmly entrenched in negative territory but has lifted somewhat from its cycle low of -28.7

in September.

Separately, Norway's Norges Bank hiked rates by 25 basis points to 3.0% and the Swiss National Bank hiked rates by 50 basis points, to 1.5%.

United States: New home sales increased by 1.1% in February, rising to 640k. This followed a revised 1.8% gain in January. The outcome was above the -3.1% expected by consensus, however, the previous month had a large revision from an initial 7.2% gain to a smaller 1.8% rise.

The Chicago Fed's national activity index fell back into negative territory in February. The index declined to -0.19 in the month, following a 0.23 reading in January. The outcome was below expectations of 0.10.

The Kansas City Fed manufacturing index was flat in March, at 0, following the same flat outcome in February. The result was slightly above expectations for a contractionary outcome of -2 in the month.

Today's key data and events:

EZ Markit Services PMI Mar exp 52.5 prev 52.7 (8pm)

JP CPI Feb y/y exp 3.3% prev 4.3% (10:30am)

UK GfK Consumer Sentiment Mar exp -36 prev -38 (11:01am)

UK Retail Sales Feb exp 0.2% prev 0.5% (6pm)

UK Markit Manufacturing PMI Mar exp 49.7 prev 49.3 (8:30pm)

UK Markit/CIPS Services PMI Mar exp 53.0 prev 53.5 (8:30pm)

US Durable Goods Orders Feb exp 0.5% prev -4.5% (11:30pm)

US Markit Manufacturing PMI Mar exp 47.0 prev 47.3 (12:45am)

US Markit Services PMI Mar exp 50.3 prev 50.6 (12:45am)

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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