

Morning Report

Wednesday, 26 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,322	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,531	-1.0%	10 yr bond	3.35				90 day BBSW	3.68	0.00
Japan Nikkei	28,620	0.1%	3 yr bond	2.96				2 year bond	3.15	0.00
China Shanghai	3,422	-0.3%	3 mth bill rate	3.68				3 year bond	3.13	0.00
German DAX	15,872	0.1%	SPI 200	7,316.0				3 year swap	3.40	-0.03
UK FTSE100	7,891	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.45	0.00
Commodities (close & change)*			TWI	60.4	-	-	60.4	United States		
CRB Index	268.8	-3.8	AUD/USD	0.6694	0.6706	0.6614	0.6628	3-month T Bill	4.89	-0.05
Gold	1,997.35	0.0	AUD/JPY	89.83	90.03	88.26	88.63	2 year bond	3.95	-0.13
Copper	8,727.00	-67.5	AUD/GBP	0.5362	0.5364	0.5333	0.5341	10 year bond	3.40	-0.09
Oil (WTI futures)	77.07	-1.7	AUD/NZD	1.0858	1.0859	1.0779	1.0793	Other (10 year yields)		
Coal (thermal)	210.40	0.8	AUD/EUR	0.6061	0.6065	0.6029	0.6039	Germany	2.38	-0.12
Coal (coking)	245.67	-4.7	AUD/CNH	4.6209	4.6256	4.5939	4.6005	Japan	0.48	0.01
Iron Ore	100.35	-2.1	USD Index	101.26	101.95	101.20	101.86	UK	3.70	-0.09

Data as at 7:45 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 a risk off tone overnight as corporate earnings disappointed, concerns over the banking sector remerged and investors digested another round of softer than expected economic news.

First Republic share price plunged by almost 50% after the Bank revealed significant deposit outflows and reports surfaced of a possible plan to divest \$50-\$100 billion of assets, including long-dated securities and mortgages, to shore up its balance sheet.

Against this backdrop, US equities fell sharply. Capital flowed to the bond market which saw declines in bond yields. The US dollar advanced against every G-10 currency save the yen.

Share Markets: US equities fell sharply on the back of disappointing earnings from companies including First Republic Bank and United Parcel Service (UPS) - UPS dropped nearly 10%. Weaker than expected US consumer confidence data and activity indicators point to some further softness in the economy and contributed to the fall.

The S&P 500 closed 1.6% lower, the Dow Jones declined by 1.0% and the NASDAQ closed 2.0% lower.

In positive news, Microsoft released its earnings report after the market closed, which exceeded analyst expectations. Reports suggest that the

company earned \$2.45 per share, compared to the expected \$2.23 per share.

The ASX 200 finished 0.1% lower on Monday. It was the third consecutive day of modest losses, with falls in the mining and energy outweighing gains on most other sectors. Futures are pointing to losses in early morning trade.

Interest Rates: US treasury yields were lower across the curve. The 2-year treasury yield fell by 13 basis points to 3.95%. The 10-year yield also fell by 9 basis points to 3.40%.

Interest rate markets are attaching an 80% probability to a Fed rate hike in May. Rate cuts continue to be fully priced for the end of the year.

The Australian 3-year government bond (futures) yield declined by 13 basis points to 2.96%, while the 10-year (futures) yield was declined by 9 basis points to 3.35%.

Cash rate futures imply a 15% chance of a rate hike in May. The cash rate is expected to end the year broadly unchanged at almost 3.7%. The release of the much awaited domestic inflation data for the March quarter has the potential to see large revisions in market pricing.

Foreign Exchange: The US dollar advanced against every G-10 currency save the yen. The DXY index ranged between a low of 101.20 and a high of 101.95 and is currently trading around 101.86.

The Aussie dollar was softer but remained firmly within its recent range ahead of the domestic inflation read to be released later today. The AUD/USD pair ranged between a high of 0.6706 and a low of 0.6614 and is currently trading around 0.6628.

Commodities: Commodity prices were broadly weaker, led by declines in copper, iron ore and coking coal. Iron ore is currently trading at around USD\$100 per tonne, the lowest level since December 2022.

The West Texas Intermediate (WTI) futures price of oil fell 1.7%, to close at US\$77.07 per barrel.

Australia: There were no major economic data releases. Later this morning the ABS will release the much-awaited March quarter Consumer Price Index (CPI). The CPI will be the last piece of the puzzle for the Reserve Bank's (RBA) May meeting.

Partial indicators, including the ABS' monthly inflation gauge, suggest that inflation peaked in the December quarter 2022.

The RBA will not only be looking to confirm that inflation has peaked, but also that "core inflation" is showing signs of decelerating. Core inflation strips away categories recording large increases and decreases in prices to measure the underlying inflationary pulse. Core inflation increased by 6.9% over the year to the December quarter – the fastest pace in more than 30 years.

The RBA's latest forecasts have core inflation decelerating to an annual rate of 6.2% by the June quarter. An annual reading below December quarter's 6.9% is likely to satisfy the RBA that inflation is on its way down. The closer the March quarter outcome is to the RBA's June forecast of 6.2%, the more likely the RBA Board will be satisfied that they have done enough tightening to ensure inflation is on track to decline to the target band of 2 – 3% at the desired pace.

United Kingdom: Public sector net borrowing in the financial year ending March 2023 was initially estimated at £139.2 billion (or 5.5% of gross domestic product (GDP)), £18.1 billion more than in the financial year ending March 2022. This was the fourth-highest FY borrowing across a financial year since records began in 1946. Estimates showed that the steady rise in receipts was not enough to offset the £34.0 billion increase in interest payable and the £41.2 billion cost of the energy support schemes.

The average asking price of dwellings advertised on Rightmove between March 12 and April 15 were up

by 0.2% over the month, down from the monthly increase of 1.2% recorded over April 2022. Compared with a year earlier, asking prices were 1.7% higher. Rightmove said transaction volumes were now back to around the level they were before the start of the pandemic.

United States: Consumer confidence dropped in April to the lowest since July, with the index falling to 101.3 index points from 104.0 points last month. Markets were expecting consumer confidence to remain unchanged in April. Consumers' short-term outlook for income, business, and labor market conditions fell to 68.1 points from 74.0 last month. This subindex has remained below 80 (the level associated with a recession within the next year) every month since February 2022, except for a brief uptick in December 2022.

The Richmond Fed Manufacturing Index declined to -10 index points in April of 2023, deteriorating from the -5 points in March. This outcome was worse than the -8 index points the market was expecting and suggests that higher interest rates continue to pressure business activity for manufacturers. Volume of new orders and the backlog of orders deteriorated over the month. Prices paid and prices received edged higher, erasing the improved inflation rate seen in March.

The Federal Housing Finance Agency House Price Index increased by 0.5% over the month of February, to be 4.0% higher than a year ago. The increase was, in part, due to a decline in mortgage rates by more than half a percentage point from the peak reached in early November as well as historically low housing inventory.

The S&P CoreLogic Case-Shiller house price index increased by 0.2% over February, following seven consecutive months of declines. The moderation in price declines has becoming more widespread, with prices increasing in nine out of twenty cities (versus five in January) and most cities showing improvements relative to January.

New home sales unexpectedly increased 9.6% to an annualized 683,000 pace in March. This was stronger than the 632k expected by the market.

The Federal Reserve Bank of Dallas' general business activity index for manufacturing in Texas declined to -23.4 points in April from -15.7 points in March, its lowest reading in nine months. The production index, new orders index, labour market index and uncertainty index all deteriorated over the month.

The Chicago Fed National Activity Index was -0.19 in March, unchanged from February. This read points to below trend economic activity. Two of the four broad categories of indicators used to construct the index deteriorated from February, including the production-related indicators and the personal consumption and housing.

Today's key data and events:

AU CPI Q1 (11:30am)

Headline q/q exp 1.3% prev 1.9%

Headline y/y exp 6.9% prev 7.8%

Underlying q/q exp 1.4% prev 1.7%

Underlying y/y exp 6.7% prev 6.9%

AU Monthly CPI indicator Mar prev 6.8% (11:30am)

NZ Trade Balance Mar prev -\$714m (8:45am)

US Durable Goods Orders Mar Prel. (10:30p,)

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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