

Morning Report

Monday, 27 February 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,307	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	32,817	-1.0%	10 yr bond	3.89	0.06			90 day BBSW	3.51	0.01
Japan Nikkei	27,453	1.3%	3 yr bond	3.67	0.09			2 year bond	3.56	-0.03
China Shanghai	3,425	-0.6%	3 mth bill rate	3.67	0.02			3 year bond	3.57	-0.03
German DAX	15,210	-1.7%	SPI 200	7,198.0	-51			3 year swap	4.12	0.04
UK FTSE100	7,879	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.82	-0.06
Commodities (close & change)*			TWI	61.9	-	-	61.9	United States		
CRB Index	267.2	0.2	AUD/USD	0.6814	0.6824	0.6719	0.6733	3-month T Bill	4.66	-0.03
Gold	1,811.04	-11.2	AUD/JPY	91.74	91.98	91.35	91.81	2 year bond	4.81	0.12
Copper	8,705.50	-193.5	AUD/GBP	0.5667	0.5676	0.5624	0.5630	10 year bond	3.94	0.07
Oil (WTI futures)	76.32	0.9	AUD/NZD	1.0933	1.0940	1.0905	1.0922	Other (10 year yields)		
Coal (thermal)	205.80	4.8	AUD/EUR	0.6426	0.6435	0.6372	0.6382	Germany	2.54	0.06
Coal (coking)	370.33	-3.0	AUD/CNH	4.7118	4.7308	4.6849	4.6956	Japan	0.50	0.00
Iron Ore	123.90	-2.8	USD Index	104.54	105.32	104.42	105.26	UK	3.66	0.07

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 hotter than expected outcomes for the personal consumption expenditure (PCE) deflator – an inflation measure eyed closely by the Fed – shaped market direction on Friday. Equities fell while US bond yields and the US dollar scaled higher.

Share Markets: US share markets fell after the stronger than expected inflation data. The Dow fell 1%, the S&P 500 dropped 1.1% and the Nasdaq came under heavier selling pressure, falling by 1.7%.

Interest Rates: US bond yields jumped on Friday, after the stronger-than-expected PCE-deflator data. The US 2-year yield rose 12 basis points and the 10-year yield lifted 7 basis points.

Currencies: The US dollar index appreciated sharply after the PCE data. It rose from near the 104 handle to above 105, as markets priced in a greater probability that the Fed would need to take the fed funds rate to a higher peak. Against this backdrop, the AUD lost a full US cent, dropping from a Friday high of 0.6824 to a low of 0.6719.

Commodities: Commodities were mixed on Friday.

Australia: There was no major economic data published on Friday locally.

Europe: Germany's economy shrank more than expected in the fourth quarter according to revised figures, raising doubts over the ability of Europe's biggest economy to escape recession and recover

swiftly from its energy crisis. GDP contracted 0.4% from the previous quarter. That is the second downgrade in Germany's latest GDP figures in the past month. Initially Destatis estimated the economy had stagnated, before announcing a 0.2% fall in fourth-quarter output in its flash estimate at the end of January. The 0.4% fall in Q4 is the first fall in GDP since early 2021. High inflation drove sharp falls in consumer spending and investment in buildings and machinery.

Japan: Core consumer prices jumped 4.2% in January from a year earlier, rising at the fastest pace since September 1981 on higher energy and food prices. Excluding volatile fresh food items, the core consumer price index was above the Bank of Japan's 2% inflation target for the 10th straight month.

United States: Consumer spending increased by the most in nearly two years in January amid a surge in wage gains, while inflation accelerated, adding to financial market fears that the Federal Reserve could continue raising interest rates into the US's summer.

Personal spending jumped 1.8% in January, well above consensus forecasts for a rise of 1.4%, and after a fall of 0.1% in December (upwardly revised a tad). Meanwhile, personal income rose 0.6% in January, after a rise of 0.3%.

The PCE deflator that is eyed by the Fed rose 0.6%

in January, after a rise of 0.2% in December. It was above consensus forecasts that centred on an outcome of 0.5%. And it led the annual rate to rise to 5.4%, from 5.3% in the previous month. The core PCE deflator also showed a renewed rise in inflationary pressures; the monthly rate rose by 0.6% vs consensus forecasts of 0.4% and December's result of 0.4%. The annual core PCE jumped to 4.7%, from 4.6% in December.

The peak was back in February of 5.4% for the core PCE and 7.0% in June for the headline PCE – however, Friday's data demonstrates that the inflation could be sticky on the way down.

New home sales rose in January from December, as mortgage rates eased off their highs of the past year at the start of 2023. Sales of new single-family houses were at a seasonally adjusted annualised rate of 670,000 last month, up from a revised 625,000 in December. It was the strongest sales pace since March 2022. But sales were down from last year's estimated rate of 831,000.

Consumer sentiment rose in February to the highest level in a year as near-term inflation expectations retreated from earlier in the month. The University of Michigan's final index of sentiment for the month increased to 67 - the highest since January 2022 - from a preliminary reading of 66.4. A closely watched gauge of price expectations over the next year edged lower to 4.1% from 4.2%. Consumers still expect inflation rise 2.9% over the next five to 10 years.

Fed members Mester and Jefferson repeated the recent Fed mantra of expecting further tightening to battle high inflation.

Today's key data and events:

NZ Retail Sales Ex Inflation exp 0.2% prev 0.4% (8:45am)

AU Business Indicators Q4 (11:30am)

Co Operating Profits Q4 prev -12.4%

Inventories Q4 prev 1.7%

EZ Confidence Indexes for Services, Industrial and Economic Feb (9pm)

US Durable Goods Orders Jan exp -4% prev 5.6% (12:30am)

US Pending Home Sales Jan exp 1% prev 2.5% (1am)

US Dallas Fed Mfg Index Feb exp -9.3 prev -8.4 (2:30am)

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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