

Morning Report

Monday, 6 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,284	0.4%			Last	Overnight Chg		Australia		
US Dow Jones	33,391	1.2%	10 yr bond	3.85			-0.06	90 day BBSW	3.63	0.00
Japan Nikkei	27,927	1.6%	3 yr bond	3.59			-0.02	2 year bond	3.60	0.03
China Shanghai	3,489	0.5%	3 mth bill rate	3.71			0.01	3 year bond	3.60	0.03
German DAX	15,578	1.6%	SPI 200	7,298.0			63	3 year swap	4.07	-0.02
UK FTSE100	7,947	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.90	0.04
Commodities (close & change)*			TWI	61.4	-	-	61.4	United States		
CRB Index	275.1	3.8	AUD/USD	0.6732	0.6775	0.6725	0.6746	3-month T Bill	4.72	-0.01
Gold	1,856.48	20.6	AUD/JPY	92.02	92.25	91.68	91.74	2 year bond	4.86	-0.03
Copper	8,965.50	22.9	AUD/GBP	0.5633	0.5645	0.5601	0.5610	10 year bond	3.95	-0.10
Oil (WTI futures)	79.68	1.5	AUD/NZD	1.0821	1.0888	1.0804	1.0847	Other (10 year yields)		
Coal (thermal)	188.90	-4.1	AUD/EUR	0.6351	0.6372	0.6345	0.6354	Germany	2.72	-0.04
Coal (coking)	367.50	6.0	AUD/CNH	4.6592	4.6739	4.6514	4.6689	Japan	0.51	0.00
Iron Ore	126.00	0.6	USD Index	104.95	105.00	104.49	104.53	UK	3.85	-0.03

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: Investor sentiment for risk was whetted after the prices component of the US ISM services index fell in the latest reading.

Share Markets: US share markets recorded firm gains. The S&P 500 lifted 1.2%, the Dow gained 1.6% and the Nasdaq rose 2.0%. The decline in the prices component of the US ISM services index helped markets rally.

Interest Rates: US bond yields fell across the curve on Friday with the 2-year yield dropping 3 basis points and the 10-year yield falling 10 basis points. Interest-rate markets are more than fully priced for a rate hike of 25 basis points at the Fed's next meeting on 22 March.

The Australian 3-year government bond yield (futures) ranged between 3.59% and 3.64%, while the 10-year yield fell from 3.91% to 3.84%. Markets are nearly fully priced for another 25 basis point rate hike tomorrow and see the peak as 4.20% in September.

Currencies: The AUD/USD was volatile within a narrow range of 0.6725 and 0.6775. Near term direction in the AUD is likely to come from the Reserve Bank statement tomorrow. A 25 basis point is widely expected but markets will be looking for any tweak to the tone of the statement after last week's soft national accounts data.

Commodities: Most commodity prices were firmer on Friday. Firm Chinese data supported the gains in

commodities.

Australia: New housing finance (excluding refinancing) tumbled 5.3% in January extending a run of twelve consecutive monthly declines. This squeezed the value of new housing credit to its lowest level since August 2020.

Sharp monthly declines were recorded in new lending to both owner-occupiers (-4.9%) and investors (-6.0). The annual fall in new lending in both borrowing categories slumped to its largest on record.

A particularly ominous sign was the 8.9% fall in new lending for the construction of dwellings. New lending for dwelling construction is now over 61% below its February 2021 peak, pointing to a further slowdown in new housing supply.

Refinancing activity pulled back further in January but remains elevated and just shy of its record high. The sharp rise in borrowing costs has prompted households to shop around for a better deal. We expect this trend will continue, boosted by the expiry of a large number of fixed-rate mortgages this year.

First-home buyers are being squeezed out of the market as higher interest rates erode borrowing capacity. The number of new loan commitments to first-home buyers fell to the lowest level in more than five years in January.

China: China's government set a modest GDP

growth target of about 5% for 2023, allowing it to avoid any large stimulus to boost its recovery. Economists had projected a more-ambitious target. China's Premier Li Keqiang said domestic demand is a priority and officials will seek to create about 12 million urban jobs. The government also raised its fiscal deficit projection even as it cut the quota for local bond sales.

The Caixin purchasing managers' index (PMI) rose to 54.2 in February, an uplift of 3.1 points from the outcome in January. The services PMI also recorded a solid increase – rising from 52.9 in January to 55.0 in February. Both indexes are suggesting activity in China will expand in coming months.

Europe: Wholesale inflation fell sharply in January in the euro area. Producer prices fell 2.8% in the month, causing the annual growth rate to ease from 24.5% in December to 15% in January. The fall was driven by a steep 9.4% decline in energy prices in January. Excluding energy, producer prices rose 1.1% in the month.

European Central Bank (ECB) President Christine Lagarde said the ECB is "very likely" to hike by 50 basis points this month.

United States: The ISM services index fell a tad in February, from 55.2 in January to 55.1 in February. The prices paid component fell 2.2 points to 65.6 and the employment component jumped 4 points to 54.0.

The Fed's higher-for-longer drumbeat is getting louder. The Fed's Mary Daly warned "it's clear there is more work to do." She added recent data have been "bumpy" and she reiterated support for a peak rate of between 5%-5.5%. Meanwhile, Thomas Barkin favours a more deliberate tightening pace, and sees getting inflation back to target likely taking "a lot more time and effort."

Fed chair Jerome Powell appears this week before Congress.

Today's key data and events:

NZ Volume of Buildings Q4 prev 3.8% (8:45am)

AU Melb Inst Inflation Gauge Feb y/y prev 6.4% (11am)

EZ Sentix Investor Confid. Feb exp -5.5 prev -8.0 (8pm)

EZ Retail Sales Jan exp 0.6% prev -2.7% (9pm)

US Factory Orders Jan exp -1.8% prev 1.8% (2am)

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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