Morning report

Bank of Melbourne

Friday, 14 April 2023

Equities (close & % change)		
S&P/ASX 200	7,324	-0.3%
US Dow Jones	34,030	1.1%
Japan Nikkei	28,157	0.3%
China Shanghai	3,478	-0.3%
German DAX	15,729	0.2%
UK FTSE100	7,843	0.2%
Commodities (close & change)*		
CRB Index	275.6	-0.1
Gold	2,040.24	0.0
Copper	9,066.75	146.7
Oil (WTI futures)	82.16	-1.1
Coal (thermal)	190.25	-12.2
Coal (coking)	282.00	-6.3
Iron Ore	116.75	0.3

Sydney Futures Exchange (last & change)				
	Last			Overnight Chg
10 yr bond	3.33			0.06
3 yr bond	2.94			0.03
3 mth bill rate	3.65			0.00
SPI 200	7,356.0			15
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	60.2	-	-	60.2
AUD/USD	0.6693	0.6797	0.6685	0.6783
AUD/JPY	89.09	90.18	88.98	89.93
AUD/GBP	0.5361	0.5424	0.5353	0.5416
AUD/NZD	1.0769	1.0813	1.0746	1.0772
AUD/EUR	0.6088	0.6149	0.6080	0.6141
AUD/CNH	4.6043	4.6681	4.5979	4.6620
USD Index	101.46	101.60	100.85	101.01

Interest rates (close & change)		
Australia		
90 day BBSW	3.64	0.00
2 year bond	2.96	0.04
3 year bond	2.94	0.04
3 year swap	3.39	0.02
10 year bond	3.27	0.03
United States		
3-month T Bill	4.83	-0.05
2 year bond	3.97	0.01
10 year bond	3.44	0.05
Other (10 year yields)		
Germany	2.37	0.00
Japan	0.47	0.00
UK	3.58	0.01

Data as at 7:50 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Softer than expected US inflation data and confirmation of a mild upswing in jobless claims boosted hopes that a Fed rate pause is approaching. This prompted an improvement in risk sentiment, sending equities higher and softening the US dollar. Treasury yields were slightly higher, suggesting credit markets are not convinced of a pause just yet.

Share Markets: Equity markets benefitted from the risk-on mood, finishing solidly in the green. The S&P 500 gained 1.3%, while the Dow Jones and the NASDAQ gained 1.1% and 2.0%, respectively.

The ASX 200 closed down 0.3% yesterday, after stronger-than-expected jobs data shortened the odds of another Reserve Bank (RBA) rate hike. Futures are pointing to a positive open this morning.

Interest Rates: The US yield curve rose and steepened overnight, despite some softer data. The 2-year yield rose 1 basis point to 3.97%, while the 10-year yield gained 5 basis points to 3.44%.

Interest rate markets are pricing in a 72% probability of another 25-basis point hike from the Fed in May. Swap pricing suggests this may be the last hike of the cycle with cuts priced in from November.

The Australian 3-year government bond (futures) yield rose 3 basis points to 2.94%, while the 10-year (futures) yield was up 6 basis points to 3.33%.

Markets are pricing in around a 10% chance of a 25-basis point hike from the RBA in May. This is up from around 7% yesterday before the release of the March jobs data. Markets still expect the next move in the cycle to be a cut, though a full 25-basis point hike is not yet fully priced for this year, suggesting a 'hike and hold' approach.

Foreign Exchange: The Aussie dollar rocketed to a more than 6-week high of 0.6797 overnight, supported by strong local jobs data and a weaker US dollar. The AUD/USD pair pierced comfortably above its 200-day moving average, a bullish signal, though the pair is running into heavy sellers near the 0.68 handle, which has been tested several times this month with little success. Another close above 0.6780, the 38.2% Fibonacci retracement on the October to February run from 0.6170 to 0.7158, or a convincing run above 0.68 may confirm a developing uptrend for the Aussie.

The US dollar was weaker against a basket of major currencies. The DXY index traded from a high of 101.60 to a more than 2-month low of 100.85 and is currently trading around 101.01.

The Euro rose from a low of 1.0977 to 12-month high of 1.1068 and is currently trading around 1.1049.

Commodities: Commodities were mixed overnight. Oil and coal softened, while copper and iron ore firmed. Gold advanced to a fresh 13-month high at US$2,040.24 per ounce.

Australia: Employment jumped 53.0k in March, pointing to a reacceleration in employment growth following tepid growth over the festive months of December and January.

The increase in employment outpaced the large 51.4k rise in the labour force. This resulted in a fall in the number of unemployed workers, leaving the unemployment rate unchanged at 3.5%.

As migration has surged, so too has labour supply. The working age population expanded by 481.5k people over the year to March, the biggest annual increase on record. However, the labour market has demonstrated an incredible ability to soak up new workers at an impressive rate.

This has been made possible by the large amount of excess demand for labour accumulated while the economy roared back to life, but international borders were closed. However, this excess demand cannot last forever and as the backlog of demand is filled, aspiring workers will find it more difficult to snap up a position and unemployment is expected to rise.

Consumer inflation expectations eased to 4.6% in April from 5.0% in March. This was the third consecutive monthly fall in inflation expectations and the softest reading since February 2022. This will be welcomed news for the Reserve Bank (RBA) who are trying to engineer a slower path back to the inflation target than some other major economies while trying to keep inflation expectations well anchored.

China: The trade surplus widened to US$88.2bn in March, from US$16.8bn in February. This was considerably stronger than expected by consensus. The result was underpinned by a surprise 14.8% surge in exports, driven by improved demand from other Asian economies and Europe. Imports, softened by 1.4%.

Eurozone: Industrial production expanded 1.5% in February, beating expectations for a 1.0% gain. This followed an upwardly revised 1.0% increase in production in January. Annual growth in industrial production accelerated to 2.0%, its fastest pace in three months.

Headline annual inflation in Germany was finalised at 7.4% in March, unchanged from the preliminary reading. Similarly, the monthly pace of inflation was unchanged at final figures at 0.8%.

United States: The producer price index (PPI), a measure of inflation faced by businesses, fell 0.5% in March, following a flat reading in February. This was weaker than expected and drove a fall in annual PPI growth to 2.7%, from 4.9% in February. Consensus was expecting annual growth to clock in at 3.0%.

The PPI declined by 0.1% when excluding volatile food and energy categories taking annual growth in the core measure to 3.4%. In other words, deflation in food and energy components drove a large part of the fall in price pressures in March.

The sharp deceleration in the PPI points to the softening of up-stream cost pressures and further disinflation in goods prices. While this is a welcomed development, the Fed is likely to be vigilant to the risk inflation remains sticky, especially as the labour market remains tight and wages are growing at unsustainable levels.

Initial jobless claims for the week ending 8 April came in broadly as expected at 239k. This was an increase on the previous week and represents a gradual acceleration in jobless claims over recent months, pointing to some early signs of easing conditions in the US labour market.

Today's key data and events:

NZ BusinessNZ Mfg PMI Mar prev 52.0 (8:30am)
NZ Net Migration Feb prev 5,170 (8:45am)
US Import Price Index Mar prev -0.1% (10:30pm)
US Export Price Index Mar prev 0.0% prev 0.2% (10:30pm)
US Retail Sales Mar exp -0.4% prev -0.4% (10:30pm)
US Indust. Production Mar exp 0.2% prev 0.0% (11:15pm)
US Business Inventories Feb exp 0.3% prev -0.1% (12am)
US UoM Cons. Sent. Apr Prel. exp 62.0 prev 62.0 (12am)

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.

Jameson Coombs, Economist
Ph: +61 401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
+61 401 102 789