

Wednesday, 19 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,360	-0.3%			Last	Overnight Chg		Australia		
US Dow Jones	33,977	0.0%	10 yr bond	3.51		0.03	90 day BBSW	3.66	0.00	
Japan Nikkei	28,659	0.5%	3 yr bond	3.09		0.03	2 year bond	3.12	0.11	
China Shanghai	3,557	0.2%	3 mth bill rate	3.75		0.03	3 year bond	3.09	0.10	
German DAX	15,883	0.6%	SPI 200	7,376.0		9	3 year swap	3.57	-0.01	
UK FTSE100	7,909	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.47	0.10
Commodities (close & change)*			TWI	60.5	-	-	60.5	United States		
CRB Index	278.9	2.1	AUD/USD	0.6702	0.6747	0.6698	0.6728	3-month T Bill	4.94	-0.07
Gold	2,005.46	0.0	AUD/JPY	90.12	90.52	89.98	90.21	2 year bond	4.20	0.00
Copper	8,966.95	-61.3	AUD/GBP	0.5414	0.5435	0.5405	0.5414	10 year bond	3.58	-0.02
Oil (WTI futures)	80.86	0.0	AUD/NZD	1.0839	1.0871	1.0824	1.0836	Other (10 year yields)		
Coal (thermal)	183.00	0.0	AUD/EUR	0.6134	0.6155	0.6127	0.6132	Germany	2.48	0.00
Coal (coking)	258.67	-6.3	AUD/CNH	4.6136	4.6407	4.6071	4.6300	Japan	0.48	-0.01
Iron Ore	118.20	0.5	USD Index	102.11	102.14	101.64	101.76	UK	3.75	0.06

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: With limited top tier economic data released overnight, investors weighed up earning announcements and the latest guidance provided by Federal Reserve officials. US equities were broadly unchanged. The US dollar retreated slightly, and bond yields were mixed.

Share Markets: US equities were broadly unchanged. The S&P 500 finished 0.1% higher after recovering early day losses late in the session. The Nasdaq and Dow Jones finished unchanged.

The ASX 200 finished yesterday's session 0.3% lower. Futures are pointing to a positive open today.

Interest Rates: Bond yields were mixed. The US 2-year yield was unchanged at 4.20%. The 10-year yield declined by 2 basis points to 3.58%.

Interest-rate markets are pricing an 86% chance of a 25-basis point hike in May and expect the Fed funds rate to peak at around 5.1%. Investors continue to price in cuts in the second half of 2023 and into 2024, with around 75 basis points of cuts priced by the end of January 2024.

Australian government bond yields increased overnight. The 3-year government bond yield (futures) rose 3 basis points, to 3.09%. The 10-year government bond yield (futures) was 3 basis points higher, at 3.51%.

Interest-rate markets are pricing in a 19% probability of a hike at the RBA's May meeting, with

a peak of 3.74% in August. Markets are no longer expecting the RBA to cut rates this year, pricing in a cash rate of around 3.6% by the end of 2023. This is consistent with the message delivered by the RBA Governor.

Foreign Exchange: The US dollar declined against major currencies. The USD Index traded declined from a high of 102.14 during the Asian sessions, to a low of 101.64 during the London trade. It is currently trading at around 101.76.

The AUD/USD pair edged higher on the back of higher domestic bond yields and the hawkish Reserve Bank Board minutes. The pair reached a high of 0.6747 during the New York session, before settling at 0.6728.

Commodities: Commodities were mixed. Copper and coking coal were both down, while iron ore edged higher. Oil prices remained at just above US\$80 per barrel.

Australia: At its April policy meeting the Reserve Bank (RBA) Board decided to leave the cash rate unchanged, at 3.6%. This was the first pause in 11 meetings.

RBA Board minutes revealed that two options were considered, a 25-basis-point hike, or a pause. The arguments for a hike included inflation being too high; the labour market being very tight; inflation being sticky overseas; pressures in housing and electricity markets impacting the pace of

disinflation; and inflation only being forecast to return to the top of the 2-3% band by mid-2025.

The arguments supporting a pause centred largely on the fact that the cash rate had already been raised by a significant amount in a short space of time and that monetary policy was already restrictive. For example, the minutes noted that home loan repayments as a share of income were forecast to rise to their highest level on record.

The minutes provided some insight on how the RBA may approach policy going forward, stating they would not be comfortable with a return to the target beyond the mid-2025 forecast.

The May decision remains a close call. The RBA will be watching key economic data to determine whether to hike or pause again, including developments in the global economy, trends in household spending and the outlook for inflation and the labour market.

China: Economic activity expanded by 4.5% over the year to the March quarter 2023. This was stronger than the 4.0% the market was expecting, and the 2.9% growth rate recorded over the year to the December quarter 2022.

The strong outcome was underpinned by a strong pickup in consumer spending. Over the year to the month of March 2023, retail trade grew by a massive 10.6% - the biggest gain since June 2021. This was a significant step up from the annual 3.5% growth rate record in both the months of January and February 2023.

Industrial production also accelerated to be 3.9% higher over the year to the month of March. This was higher than the growth of 2.4% recorded over the year to February, but weaker than the 4.4% the market was expecting. Furthermore, property investment fell by 5.8% over the year to the March quarter 2023 – weaker than the fall of 4.7% the market was expecting. This suggests that the residential construction sector remains under pressure, notwithstanding the pickup in consumer spending.

United Kingdom: The unemployment rate increased by 0.1 percentage points, to 3.8%, over the three months to February 2023. This is the highest unemployment rate since the second quarter of 2022. The number of unemployed persons went up by 49k. Average annual wage growth was 5.9% in the three months to February. This was well above the 5.1% the market was expecting. Excluding bonuses, average annual wage growth held at 6.6%. Unlike Australia, this shows that the high inflation is

feeding through into higher wages growth.

Eurozone: The Indicator of Economic Sentiment for declined by 3.6 points to be at 6.4 index points in April 2023. It was the second month of deterioration in sentiment. When it comes to survey details: 51% of the surveyed analysts expected no changes in economic activity; 28% expected improvement; and 22% predicted a deterioration.

United States: Median weekly earnings of full-time wage workers increased 6.1% over the year to the March quarter 2023. This was stronger than the 5.8% increase in consumer prices recorded over the same period, suggesting that workers are starting to see real wage increases.

Building permits declined by 8.8% over the month of March, to be at an annual rate of 1.413 million permits. This partially reversed the 15.8% jump recorded in February. The number of permits was lower than the 1.45 million the market was expecting and remained close to the almost 3-year low of 1.337 million recorded in December 2022 – suggesting activity in the construction sector will continue to be subdued.

Housing starts declined by 0.8% over the month of March, to be at an annual rate of 1.42 million starts. This was slightly better than the 1.4 million the market was expecting.

Raphael Bostic, president of the Federal Reserve Bank of Atlanta, favours one more 25 basis point hike and then a hold for "quite some time." He stated "there's more work to be done" but added that tighter credit conditions may do some of that.

James Bullard, president of the Federal Reserve Bank of St. Louis, argued for at least two more 25 basis point hikes given how sticky inflation has become. He called recession fears overblown, saying "Wall Street's very engaged in the idea there's going to be a recession in six months or something, but that isn't really the way you would read an expansion like this...The labour market just seems very, very strong...it doesn't seem like the moment to be predicting that you have a recession in the second half of 2023."

Today's key data and events:

AU WBC Leading Index Mar prev -0.1% (10:30am)

EZ CPI Mar Final (7pm)

JN Indust. Production Feb Final prev 4.5% (2:30pm)

UK CPI Mar exp 0.5% prev 1.1% (4pm)

US Federal Reserve Beige Book (4am)

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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