

Morning Report

Friday, 23 March 2018



Bank of Melbourne

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5937.2	-0.2%			Last	Overnight Chg		Australia		
Dow Jones	23989.0	-2.8%	10 yr bond	97.32			0.03	10 year bond	2.70	0.00
Nikkei	21592.0	1.0%	3 yr bond	97.83			0.05	3 year bond	2.12	0.04
Hang Seng	31071.1	-1.1%	3 mth bill rate	98.11			0.02	90 day BBSW	1.99	0.01
Shanghai	3418.0	-0.5%	SPI 200	5830			-88	United States		
DAX	12100.1	-1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.82	-0.06
FTSE100	6952.6	-1.2%	TWI	62.8	-	-	62.9	2 year bond	2.28	-0.03
Commodities (close & change)			AUD/USD	0.7765	0.7785	0.7672	0.7710	3-month T Bill	1.68	-0.04
CRB Index	195.2	-0.8	AUD/JPY	82.37	82.58	80.99	81.43	Other (10 year yields)		
Gold	1329.7	-2.8	AUD/GBP	0.5490	0.5501	0.5438	0.5466	Germany	0.53	-0.06
Copper	6671.5	-101.0	AUD/NZD	1.0748	1.0763	1.0656	1.0671	Japan	0.04	-0.01
Oil (WTI)	64.3	-0.9	AUD/EUR	0.6292	0.6305	0.6245	0.6265	UK	1.44	-0.09

Data as at 6:50am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Reuters, Bloomberg.

Main Themes: Risk aversion spread overnight in the aftermath of a rate hike from the US Federal Reserve and from news the US will be imposing tariffs on Chinese imports. Fears of a trade war were fanned by US President Trump's announcement. The more risk-averse mood led to a sell-off in share markets and a sharp fall in US and European bond yields.

Share Markets: Equity markets sold off sharply, as apprehension grew about a potential US trade war with China. The S&P 500 index is off 52 points (or 1.9%) and the Dow Jones is down 682 points (or 2.8%) at the time of writing.

Interest rates: The US 10-year treasury yield fell from 2.88% to 2.80%, partly recovering to 2.82% late in the New York session. Meanwhile, US 2-year yields are down 3 basis points. Fed fund futures yields slipped a little, but continuing to price two more hikes by the end of 2018. The probability of a rate hike in June is 78% at the time of writing.

Foreign Exchange: The US dollar index is up modestly overnight. EUR/USD fell from 1.2386 to 1.2286. USD/JPY fell from 106.00 to 105.25. AUD/USD performed poorly, falling from 0.7785 to near the 0.7670 handle. The AUD tends to be hurt by a rise in risk aversion. NZD/USD fell from 0.7263 to 0.7212. AUD/NZD fell from 1.0720 to 1.0660.

Commodities: Commodity prices, including crude oil, turned lower amid trade-war fears.

Australia: The strength in the labour market continued in February. Jobs grew a healthy 17.5k in the month. The unemployment rate edged up from 5.5% in January to 5.6% in February. This rise mostly reflected an increase in the participation rate, which rose from 65.6% to 65.7%, equalling its highest on record. The improvement in the labour market is continuing to entice potential workers back into the workforce.

Europe: The Markit purchasing managers' indexes for manufacturing, services and the composite for the Eurozone region all fell in March. However, all indexes remained above the critical 50 level, suggesting an expansion in activity ahead. The services PMI fell from 56.2 to 55.0. The manufacturing PMI fell from 58.6 to 56.6 and the composite index from 57.1 to 55.3.

The current account surplus widened from €31.0 billion to €37.6 billion in January. It is the largest surplus in four months.

Japan: The Nikkei manufacturing purchasing managers' index PMI edged down from 54.1 in February to 53.2 in March, suggesting an easing in activity. The index, however, remains comfortably above 50. In other data, the all industry activity index fell by 1.8% in January, after a 0.6% lift in December.

United Kingdom: The Bank of England (BoE) kept interest rates steady at 0.5% on Thursday, but two

policymakers unexpectedly voted for a hike. Moreover, the MPC said “ongoing tightening” was likely needed to return inflation back to its 2% target. Inflation in February stood at 2.7% per annum. Financial markets continue to expect a rate hike in May.

In terms of data, retail sales excluding fuel rose by 0.6% in February. The rise was stronger than consensus expected. Still, looking at the three months to February, which smooths out monthly volatility in the data, sales fell 0.4% - the weakest growth in nearly a year - after a big drop in sales in December. There is a risk of a further downturn in March, when snow storms brought widespread disruption across the UK.

United States: US President Trump ordered Trade Representative Lighthizer to levy tariffs on US\$50 billion in Chinese imports. Within 15 days, USTR will come up with a proposed list of products that will face higher tariffs. Trump also directed Treasury Secretary Steven Mnuchin to propose new investment restrictions on Chinese companies within 60 days to safeguard technologies the US views as strategic.

Initial jobless claims rose by 3,000 to 229,000 in mid March, but they remain near the lowest levels since 1970. Moreover, the number of people collecting benefits fell to a fresh 45-year low.

The FHFA house price index rose 0.8% in January, following a rise of 0.4% in December. The annual rate expanded by 7.3% in January and all regions recorded positive annual rates.

Markit released the PMIs for manufacturing, services and the composite for March. All three indexes were above 50. However, both the services and composite index fell in March from the previous month. The services PMI fell from 55.9 to 54.1 and the composite PMI fell from 55.8 to 54.3. The manufacturing PMI, however, rose from 55.3 to 55.7.

The leading index expanded by 0.6% in February, from growth of 0.8% in January.

Finally, the Kansas City manufacturing index remained steady at 17 index points in March.

Today's key data and events

JN National CPI Feb y/y exp 1.5% prev 1.4% (10:30am)

US Durable Goods Orders Feb exp 1.6% prev -3.6% (11:30pm)

US New Home Sales Feb exp 4.8% prev -7.8% (1am)

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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