

Morning Report

Thursday, 15 March 2017



Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5931.0	-1.1%			Last	Overnight Chg		Australia		
Dow Jones	25007.0	-0.7%	10 yr bond	97.26				10 year bond	2.75	-0.07
Nikkei	21746.5	-0.4%	3 yr bond	97.90				3 year bond	2.07	-0.05
Hang Seng	31239.1	-1.1%	3 mth bill rate	98.11				90 day BBSW	1.94	0.02
Shanghai	3456.3	-0.8%	SPI 200	5931				United States		
DAX	12221.0	-1.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.83	-0.04
FTSE100	7138.8	-1.1%	TWI	64.1	-	-	64.1	2 year bond	2.25	-0.01
Commodities (close & change)			AUD/USD	0.7859	0.7917	0.7852	0.7859	3-month TBill	1.67	0.02
CRB Index	194.3	-0.2	AUD/JPY	83.76	84.26	83.48	83.76	Other (10 year yields)		
Gold	1328.8	2.3	AUD/GBP	0.5628	0.5666	0.5619	0.5628	Germany	0.62	-0.01
Copper	6913.3	35.3	AUD/NZD	1.0730	1.0779	1.0707	1.0730	Japan	0.05	0.00
Oil (WTI)	60.7	-0.6	AUD/EUR	0.6343	0.6394	0.6336	0.6343	UK	1.49	-0.01

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Reuters, Bloomberg.

Main Themes: Investor sentiment soured overnight and volatility rose. The two key drivers were weaker-than-expected US retail sales data and growing fears of a US-China trade war.

Share Markets: US share markets fell overnight, amid growing fears of a trade war between the US and China. Shares also were spurred lower by weaker-than-expected retail spending data in the US. The Dow Jones fell 249 points (or 1.0%) and the S&P 500 index dropped 16 points (or 0.6%).

Interest Rates: The US 10-year treasury yield fell from 2.85% to 2.81%, as risk appetite among investors. The US 2-year yields gyrated between 2.24% and 2.29% and ended down just 1 basis point. Federal fund futures continued to price three rates hikes by the end of 2018 and another hike in 2019.

Foreign Exchange: Weaker-than-expected US retailing data caused only a modest sell off in the US dollar. The sell-off most likely was only modest because Fed policymakers meet next week and have likely already formed their opinions for near-term policy settings. EUR/USD slipped from 1.2413 to 1.2347 before steadying at 1.2375. A number of European Central Bank (ECB) officials reiterated the gradual path for policy and guidance, but also stressed the negative risks from trade tariffs. ECB President Draghi specifically stated that EUR strength would weigh on inflation. USD/JPY slipped from 106.70 to 106.07, as US equities turned early

gains into modest declines. GBP/USD was whippy at times but eventually flat, around 1.3970.

Meanwhile, AUD/USD extended its gentle Sydney session rally in London trade to reach a high of 0.7917, its strongest point since February 21. However, the AUD was pulled back to 0.7870/80 by the falls in US equity indices. NZD/USD ranged sideways between 0.7320 and 0.7355. AUD/NZD bounced off 1.0707 in Sydney trade to reach around 1.0780 in the New York session.

Commodities: Oil futures fluctuated after US data revealed crude inventories rose more than anticipated last week. Other commodities were mixed overnight.

Australia: WBC-MI consumer confidence edged up to 103.0 in March, from 102.7 in February. The index remains slightly above 100 signalling more consumers are optimistic than pessimistic.

China: Retail sales rose by 9.7% in the first two months of this year, compared to the same time last year. This outcome was below consensus expectations and was down from 10.2% year to date annual growth in December.

Industrial production was stronger than expected, rising by 7.2% in January-February, compared to the same period last year. In the year to December, compared to the same period in the previous year, industrial production rose 6.6%.

Fixed asset investment excluding rural rose by 7.9%

in the first two months of the year, compared to the same time last year. This is up from growth of 7.2% in the year to December (year to date).

Property investment in China rose by 9.9% in the first two months of this year, compared to the same period last year. Property sales growth eased to a pace of 4.1% in the first two months of 2018, compared to the previous year.

New Zealand: The current account deficit narrowed to NZ\$2.77 billion in Q4 from NZ\$4.83 billion in Q3. Although the deficit narrowed, it was still wider than expected, with the deficit driven by imports of aircraft, other transport equipment and crude oil.

United Kingdom: UK Prime Minister May announced the expelling of 23 Russian diplomats, the ceasing of high level dialogue and the potential for freezing assets of suspect Russian individuals and entities in reaction to the nerve agent attacks against Russian exiles in UK.

United States: Fears of a trade war between the US and China are growing. The Trump administration is pressing China to cut its trade surplus with the US by US\$100 billion. Trump has already imposed tariffs on steel and aluminum imports as well as on solar panels and washing machines, sparking threats of retaliation from some trade partners.

Retail sales fell 0.1% in February, the third consecutive decline and well short of consensus expectations for a 0.3% gain. The underlying detail showed broad-based weakness, although January's contraction was revised upwards to show a smaller decline.

The retail control group, a subset used for GDP calculations, rose only 0.1%, after a flat January outcome. This result prompted many analysts to downgrade estimates for US Q1 GDP. The widely-watched Atlanta Fed GDP tracking model trimmed its Q1 projection to 1.9% annualised from 2.5%.

Today's key data and events

NZ GDP Q4 exp 0.8% prev 0.6% (8:45am)

AU Cons. Inflation Expect'ns Mar prev 3.6% (11am)

US NY Empire Mfg Mar exp 15.0 prev 13.1 (11:30pm)

US Philadelphia Fed Mar exp 23.0 prev 25.8 (11:30pm)

US NAHB Housing Index Mar exp 72 prev 72 (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.

Besa Deda, Chief Economist

Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Josephine Horton

hortonj@bankofmelbourne.com.au

(02) 8253 6696

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorized use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
