Morning report

Bank of Melbourne

Monday, 1 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,309	0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,098	0.8%	10 yr bond	3.27		-0.07		90 day BBSW	3.68	0.02
Japan Nikkei	28,856	1.4%	3 yr bond	2.91		-0.07		2 year bond	3.04	-0.01
China Shanghai	3,484	1.1%	3 mth bill rate	3.67		-0.01		3 year bond	3.00	-0.02
German DAX	15,922	0.8%	SPI 200	7,372.0		54		3 year swap	3.36	-0.12
UK FTSE100	7,871	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.34	-0.03
Commodities (close & change)*			TWI	59.9	-	-	59.9	**United States**		
CRB Index	268.2	2.9	AUD/USD	0.6628	0.6642	0.6574	0.6613	3-month T Bill	4.90	-0.12
Gold	1,989.99	2.2	AUD/JPY	88.76	90.22	88.45	90.15	2 year bond	4.01	-0.06
Copper	8,590.00	6.5	AUD/GBP	0.5305	0.5314	0.5253	0.5262	10 year bond	3.42	-0.10
Oil (WTI futures)	76.78	2.0	AUD/NZD	1.0783	1.0792	1.0683	1.0693	**Other (10 year yields)**		
Coal (thermal)	187.60	-0.9	AUD/EUR	0.6013	0.6022	0.5979	0.6001	Germany	2.31	-0.15
Coal (coking)	234.67	-1.6	AUD/CNH	4.5945	4.6001	4.5581	4.5833	Japan	0.39	-0.07
Iron Ore	104.30	-0.5	USD Index	101.46	102.17	101.42	101.67	UK	3.72	-0.08

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Equities increased on the back of the strong earnings data released last week. Data released on Friday suggested that wages growth in the US remains inconsistent with the Fed's inflation target. This saw markets increase the likelihood of a further US Fed rate hike this week, supporting the US dollar. US bond yields declined across the curve, with interest rate markets now fully pricing in at least two rate cuts in the US by the end of the year.

Share Markets: US share markets continued to be bolstered by the strong earnings reported by major technology and communications companies. Big names such as Alphabet and Meta Platforms outperformed and beat market expectations. This was enough to offset concerns about the slowing US economy, sticky price/wage inflation and lingering concerns about the US banking turmoil.

Over the weekend, reports surfaced that the US Federal Deposit Insurance Corporation is preparing to place First Republic Bank under receivership and has asked potential buyers for offers. First Republic Bank shares fell further with the regional bank share price down 97% since the start of the year.

The S&P 500 and the Dow Jones both ended Friday's session 0.8% higher. The Nasdaq finished 0.7% higher. All three indices ended the week higher.

The ASX 200 snapped a five-day losing streak to finish 0.2% higher on Friday. Six of the 11 sectors finished higher with the real estate sector making the biggest gain.

Interest Rates: US treasury yields were lower across the curve. The 2-year treasury yield fell by 6 basis points to 4.01%. The 10-year yield fell by 10 basis points to 3.42%.

Interest rate markets are attaching an 85% probability to a Fed rate hike later this week – markets have interpreted the sticky wages and inflation data received last week as all but locking in another rate rise. At least two rate cuts by the end of the year have been priced in by the markets.

The Australian 3-year government bond (futures) yield declined by 7 basis points to 2.91%, while the 10-year (futures) yield also declined by 7 basis points to 3.27%.

Cash rate futures suggests there is no chance of a rate hike when the Reserve Bank Board meets tomorrow. The cash rate is expected to end the year broadly unchanged at around 3.6% - the current level.

Foreign Exchange: The AUD/USD pair was under heavy selling pressure on Friday, falling below 0.6600 and at one point trading around 0.6574 – close to the year to date low. US wages and inflation data support the case for the US Fed to hike this week. Australia's inflation data is likely to see the RBA continue to pause. This means the pair will remain vulnerable in the short term.

The US dollar index edged higher, ranging between a low of 101.42 and a high of 102.17. It is currently trading around 101.67.

Commodities: Commodity prices were broadly higher, led by gold, copper, and oil. Iron ore and coal recorded decline but remain elevated.

The West Texas Intermediate (WTI) futures price of oil increased by 2.0%, to close at US$76.78 per barrel.

Australia: The underlying slowing in private sector credit growth continued in March. Credit expanded 0.3% in March, down from the growth of 0.4% recorded in January and February. Over the year to March, credit grew by 6.8% – the slowest annual pace in 15 months.

Monthly housing credit growth also eased, growing by 0.3% over March, slightly down from the 0.34% recorded in February. The underlying trend for housing credit growth continues to soften.

Over the three months to March, housing credit averaged 0.3% per month, this is half the average growth rate of 0.6% recorded in the corresponding quarter just a year ago.

Business credit expanded 0.4% in the month. This was a step down from the 0.6% rise recorded in February. Over the year to February, business credit grew by 10.6% – the slowest pace since March 2022.

The producer prices index (PPI), which measures wholesale inflation pressures, increased by a 1.0% over the March quarter 2023. In annual terms producer prices increased by 5.2%, lower than the record pace of 6.4% recorded in the September quarter.

The largest price gains were recorded in electricity and gas, building construction, and education and training services. Offsetting price declines were recorded in fuel, furniture and other manufacturing, and computer and electronic equipment manufacturing.

New Zealand: Consumer confidence increased by 1 point to be at 79.3 index points in April. Consumer confidence remains deeply entrenched in pessimistic territory. In a positive development, inflation expectations eased from 5.4% to 5.2% over the month of April.

Japan: The unemployment rate rose to 2.8% in March from 2.6% in February. This was worse than the 2.5% the market was expecting and was the highest reading since January 2022. The number of persons unemployed increased by 150,000 to 1.95 million, the highest since February 2021.

Industrial production grew by 0.8% over the month of March but was 0.7% lower in annual terms. The monthly outcome was slightly above the 0.5% increase the market was expecting. This was the second straight monthly increase and was driven by motor vehicles, machinery, and chemicals (excluding inorganic, organic chemicals, and medicine).

The Bank of Japan kept its policy interest rate at -0.1% and the target for the 10-year bond yields at 50 basis points above and below its target of 0%. Forward guidance was modified by removing reference on the need to guard against risks from the COVID pandemic and to keep interest rates at "current or lower levels". The Board also agreed to conduct a review of the monetary path.

Eurozone: Economic activity expanded by 0.1% over the March quarter after recording a flat outcome over the December quarter. This was weaker than the 0.2% quarterly growth rate the market was expecting. Activity expanded by 1.3% over the year to the March quarter. Germany registered a flat outcome after contracting in the final quarter of 2022. This outcome confirms that has been hit hard by surging inflation, waning confidence, and increased interest rates.

United States: Employment Cost Index (ECI) accelerated to increase by 1.2% over the March quarter. The December quarter outcome was revised to 1.1% from the initial estimate of 1.0%. The outcome was higher than the 1.1% the market was expecting. In annual terms the ECI increased by 4.8%, while the wages and salary component (excludes other benefits) increased by 5.0%. This shows that wage pressures in the US remain elevated.

The core personal consumption expenditures (PCE) price index, rose 0.3% over the month of March to be 4.6% higher through the year. The outcome was in line with what the market was expecting. Prices of services excluding housing and energy services, decelerated to increase by 0.2% over the month of March, but was 4.5% higher through the year.

Personal spending was flat over the month of March, following a downwardly revised 0.1% increase in February. The outcome was better than the 0.1% fall the market was expecting. Consumption of services rose by 0.4%, driven by higher spending on housing, utilities, and healthcare services. On the other hand, consumption of goods decreased by 0.6%, led by lower spending on motor vehicles and parts, as well as gasoline and other energy goods. This data suggests that while consumers are still spending on essential services, they are becoming more cautious in their spending habits.

Personal income rose by 0.3% over the month of March, in line with the growth rate recorded in February. This was slightly above the 0.2% growth rate the market was expecting. The outcome was driven by a 0.3% increase in compensation, led by private wages and salaries.

The Kansas City Fed's Manufacturing Production index fell to -21 index points in April from 3 points in March. This was the lowest read since May 2020 and well below the 3 index points the market was expecting. All indexes declined, except for the raw materials prices, finished product prices, average employee workweek, and supplier delivery time indexes.

The University of Michigan consumer sentiment increased to 63.5 in April from 62 in March. A rise was seen in both current conditions and expectations. Inflation for the year-ahead is seen jumping to a five-month high of 4.6% from 3.6% while the five-year gauge up to 3% from 2.9%. There was worsening assessments of personal finances due to continued high prices.

Today's key data and events:

AU CoreLogic Dwelling Prices Apr exp 0.8% prev 0.8% (12:01am)

AU Melbourne Institute Inflation Gauge Apr y/y prev 5.7% (11am)

AU ANZ-Indeed Job Ads Apr (11:30am)

JN Nikkei Mfg PMI Apr Final prev 49.5 (10:30am)

US Markit Mfg PMI Apr Final exp 50.4 prev 50.4 (11:45pm)

US Construction Spending Mar exp 0.2% prev -0.1% (12am)

US ISM Mfg PMI Apr exp 46.8 prev 46.3 (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.

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