

Wednesday, 3 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,267	-0.9%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	33,685	-1.1%	10 yr bond	3.38				90 day BBSW	3.69	0.02
Japan Nikkei	29,158	0.1%	3 yr bond	3.09				2 year bond	3.26	0.21
China Shanghai	3,484	1.1%	3 mth bill rate	3.91				3 year bond	3.19	0.18
German DAX	15,727	-1.2%	SPI 200	7,229.0				3 year swap	3.54	0.02
UK FTSE100	7,773	-1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.44	0.09
<b>Commodities (close &amp; change)*</b>			TWI	60.2	-	-	60.2	<b>United States</b>		
CRB Index	260.6	-5.7	AUD/USD	0.6629	0.6717	0.6621	0.6664	3-month T Bill	4.97	-0.05
Gold	2,016.27	-0.4	AUD/JPY	91.15	92.44	90.86	91.00	2 year bond	3.96	-0.18
Copper	8,504.20	-85.8	AUD/GBP	0.5305	0.5375	0.5300	0.5344	10 year bond	3.42	-0.14
Oil (WTI futures)	71.53	-0.1	AUD/NZD	1.0747	1.0835	1.0724	1.0734	<b>Other (10 year yields)</b>		
Coal (thermal)	203.95	1.9	AUD/EUR	0.6040	0.6113	0.6031	0.6057	Germany	2.26	-0.06
Coal (coking)	236.33	1.7	AUD/CNH	4.6121	4.6681	4.6094	4.6207	Japan	0.42	0.01
Iron Ore	101.50	-0.6	USD Index	102.16	102.40	101.88	101.93	UK	3.67	-0.05

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

**Main Themes:** Sentiment towards risk soured overnight as concerns grew about the US banking sector. Soft US job openings data added to the softer risk tone.

**Share Markets:** US bank stocks tanked on concerns over financial stability, taking the broader market down with them. The Dow dropped 1.1%, the S&P 500 1.2% and the Nasdaq fell 1.1%.

**Interest Rates:** US government bond yields fell sharply on growing concerns about the US regional banking sector. The US 2-year yield fell 18 basis points to 3.96% and the 10-year yield dropped 14 basis points.

The Australian 3-year government bond yield (futures) peaked at 3.25%, following a 22-basis-point spike in response to the Reserve Bank's surprise rate hike. The 3-year yield then retraced most of the gains, falling to 3.07%. The Australian 10-year yield more than retraced the 13-basis-point RBA reaction, falling from 3.51% to 3.35%. Interest-rate markets are currently pricing in a modest chance of another rate hike from the RBA when they next meet on June 6. Markets are pricing in the peak for the cash rate at 3.96% with a timing of August.

**Foreign Exchange:** The AUD spiked after the RBA caught markets by surprise and hiked the cash rate by 25 basis points. Against the USD, the AUD lifted from 0.6630 to a high of almost 0.6720, before

undoing some of these gains to fall back to 0.6660 during overnight trade. The high of 0.6617 was the highest since 21 April. However, the AUD has remained within the trading range it has been stuck in for some time. The Fed decision is imminent and that would have contributed to some restraint around the AUD/USD's rise.

**Commodities:** Commodity prices were mostly lower, including prices for oil and gold.

**Australia:** The Reserve Bank (RBA) surprised markets and most economist by increasing the cash rate by a further 25 basis points at yesterday's Board meeting. This takes the cash rate up to 3.85%, the highest since April 2012. It also takes the cumulative amount of tightening to 375 basis points since the RBA began lifting the cash rate in May 2022.

Returning inflation to target remained a top priority. With that in mind, the RBA expressed concerns around the stickiness of services inflation, the pick up in unit labour costs and the need to keep inflation expectations well anchored.

The RBA drew on the inflation experience of other major economies, referencing that the experience overseas regarding services inflation points to upside risks. This suggests perhaps the RBA no longer sees Australia as that different. Australia may be just lagging. This would represent a change from previous comments made by the RBA.

The big question is where to next for the cash rate? Our central group view is that the rate-hike cycle is over, however, we cannot rule out further tightening. Indeed, a tightening bias remains part of the statement. The RBA has not ruled out further tightening but has tied it to the data.

**United States:** Job openings, according to JOLTS data, fell to 9.590 million in March, from 9.974 million, and against consensus expectations for a result of 9.736 million. It is the lowest result since May of 2021.

Factory orders in March rose 0.9%, below consensus expectations for a stronger rise of 1.3%. The ex-transport measure, which more closely tracks business investment, dropped 0.7% in the month, worse than the consensus forecast for a flat outcome.

**Today's key data and events:**

NZ Unemployment Rate Q1 exp 3.5% prev 3.4% (8:45am)

AU Retail Sales Mar exp 0.2% prev 0.3% (11:30am)

EZ Unemployment Rate Mar exp 6.6% prev 6.6% (7pm)

US ADP Employment Apr exp 148k prev 145k (10:15pm)

US ISM Services Index Apr exp 51.8 prev 51.2 (12am)

US FOMC Meeting exp 5-5.25% prev 4.75-5% (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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