Morning report

Thursday, 16 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,069	0.9%		Last		Overnight Chg		**Australia**		
US Dow Jones	31,875	-0.9%	10 yr bond	3.28		-0.16		90 day BBSW	3.66	0.02
Japan Nikkei	27,229	0.0%	3 yr bond	2.82		-0.25		2 year bond	3.11	0.02
China Shanghai	3,421	0.6%	3 mth bill rate	3.52		-0.19		3 year bond	3.09	0.03
German DAX	14,735	-3.3%	SPI 200	6,945.0		-115		3 year swap	3.41	0.03
UK FTSE100	7,344	-3.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.44	-0.02
Commodities (close & change)*			TWI	60.2	-	-	60.2	**United States**		
CRB Index	254.0	-7.0	AUD/USD	0.6682	0.6712	0.6590	0.6619	3-month T Bill	4.50	-0.18
Gold	1,918.74	0.2	AUD/JPY	89.69	90.20	87.36	88.31	2 year bond	3.89	-0.36
Copper	8,827.00	-103.3	AUD/GBP	0.5496	0.5511	0.5477	0.5490	10 year bond	3.45	-0.23
Oil (WTI futures)	67.61	-3.7	AUD/NZD	1.0716	1.0758	1.0675	1.0697	**Other (10 year yields)**		
Coal (thermal)	204.65	-9.7	AUD/EUR	0.6222	0.6307	0.6214	0.6258	Germany	2.13	-0.29
Coal (coking)	358.00	-3.5	AUD/CNH	4.5939	4.6147	4.5526	4.5629	Japan	0.33	0.06
Iron Ore	129.70	-2.5	USD Index	103.66	105.10	103.44	104.76	UK	3.32	-0.17

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: Concerns about the financial health of financial institutions spread to Europe. This triggered a flight to quality, as investors moved to shore up their financial positions. Bond yields declined, the US dollar index shot up and the value of riskier assets, most notably equities, took a hit.

Overnight it emerged that the Swiss National Bank (SNB) has offered to provide Credit Suisse with a liquidity backstop, if needed. The move comes after Credit Suisse dropped the most on record in Zurich as a top shareholder ruled out adding to their stake. Shares of Credit Suisse plunged more than 20% before recovering some ground. The wider US and European financial sector slumped. The cost of one-year credit default swaps for Credit Suisse spiked to distressed levels.

Share Markets: US equities fell sharply as fears of a banking crisis continued to rip through the market. US stocks recovered some losses after it became apparent that the SNB would provide Credit Suisse with liquidity, if needed. The S&P 500 finished 0.7% lower while the Dow Jones closed 0.9% weaker. The NASDAQ staged a late rally to finish 0.1% higher.

In Europe, the Euro Stoxx fell 3.5%, UK FTSE 100 fell 3.8%, German DAX dropped 3.3% and the CAC 40 declined 3.6%.

Interest Rates: Bonds pared gains after news that the SNB (would provide Credit Suisse with a back stop. But the risk-off sentiment prevailed. The US 2-year yield closed 36 basis points lower and the 10-year yield fell 23 basis points.

The price of insuring against a default on Credit Suisse debt, as measured by credit default swaps, surged to distressed levels – to US$818.34, from US$442.58 in the previous session. This is a nearly 22 standard deviation move in the credit default swap spread and is indicative of fears of material stress at the lender.

Interest-rate markets are now giving around a 50-50 chance that the US Federal Reserve will hike next week by 25 basis points. Economic data overnight was generally weaker than expected. Rate cuts of more than 100 basis points are also priced in by year's end. The Fed faces a difficult decision, but it is hard to see how the Fed can hike next week amid concerns about the banking sector in the US and Europe and market turmoil.

Our own central bank – the Reserve Bank - is also increasingly unlikely to hike when it meets next month amid this backdrop and broader evidence of slowing in the economy.

The jobs data out today is viewed as a key piece of info ahead of the RBA's decision. Regardless of the outcome today, the RBA could find it hard to keep tightening when it meets next month. Forward-looking indicators for employment - vacancies and advertisements data - are suggesting employment is slowing. Moreover, a rapid recovery in net overseas migration is improving the supply of labour.

Foreign Exchange: The USD index spiked from an overnight low just near 103.40 up to around 105.2, as the US dollar appreciated significantly against the euro and swiss franc. The EUR/USD fell from around 1.0750 to 1.0500 and USD/CHF rose from 0.9100 to 0.9350. The AUD/USD fell with heightened risk aversion hurting the AUD. The AUD/USD fell from a high of 0.6711 yesterday to an overnight low of 0.6590 – just above the 4-month low of 0.6565 struck in Friday night trade in New York. As flagged on 13 March, there remains a risk that the AUD falls towards 0.6400 in the near term amid the market turmoil and spreading nervousness about the health of banks in the US and Europe.

Commodities: Most commodities finished firmly lower. The West Texas Intermediate (WTI) futures price of oil is trading at around US$67.61 per barrel, down from over US$80 per barrel last week. Gold was up slightly, however, as investors moved to safe assets.

Australia: SEEK job advertisements data revealed that the applicants per vacancy fell for the first time in eight months, by 1.8%.

Europe: Credit Suisse dropped the most on record in Zurich as a top shareholder ruled out adding to their stake. The wider US and European financial sector slumped and the cost of one-year credit default swaps for Credit Suisse spiked to distressed levels.

The SNB announced they will provide Credit Suisse with a liquidity backstop if needed as the two sides discuss options to stabilise the bank, including a possible spin-off or UBS tie-up. Credit Suisse's funding costs have become so high it needs to raise more capital or face a break-up.

The Federal Treasury is actively reviewing the US financial sector's exposure. The European Central Bank has also contacted lenders to ask about exposure.

BNP stopped accepting swaps reassignments involving the lender.

United States: First Republic Bank was cut to junk by credit rating agency, S&P, on elevated risk of deposit outflows.

Retail sales fell by 0.4% over February, which was in line with market expectations, and followed a rise of 3.2%. The biggest decreases were seen in sales at furniture stores (-2.5%), food services and drinking places (-2.2%), miscellaneous retailers (-1.8%), and motor vehicles and part dealers (-1.8%).

Producer wholesale prices declined by 0.1% over February. This was a much weaker outcome than the increase of 0.3% the market was expecting. Goods prices decreased by 0.2%. In contrast, the prices of services less trade, transportation, and warehousing advanced 0.3%. Producer prices in annual growth terms fell from 5.7% to 4.6%.

The National Association of Home Builders (NAHB) market index rose to 44 in March, up slightly from 42 in February. This was better than expected by consensus which centred on a fall to 40. The increase was the third consecutive monthly jump in the index and marked the highest reading since September. The improvement in homebuilder sentiment was sparked by a lift in both sales and prospective buyer traffic.

The New York Empire State Manufacturing Index fell sharply to -24.6 in March, from -5.8 in February. This was a weaker outcome than the -7.9 points the market was expecting. New orders and shipments drove the declines. Additionally, surveyed firms expect some deterioration in business conditions over the next six months.

Today's key data and events:

NZ GDP (8:45am)
q/q exp -0.2% prev 2.0%
y/y exp 3.3% prev 6.4%
AU Inflation Expectations Mar prev 5.1% (11am)
AU Labour Force (11:30am)
Employment exp 50k prev -11.5k
Unemployment Rate exp 3.6% prev 3.7%
US Initial Jobless Claims 11/3 exp 205k prev 211k (xxx)
US Housing Starts Feb exp 1310k prev 1209k (11:30pm)
US Philly Fed Index Mar exp -15 prev -24.3 (11:30pm)
US NY Fed Business Outlook Mar prev -12.8 (11:30pm)
EZ ECB Meeting Main Refi Rate prev 3.00% (12:15am)

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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