

Friday, 3 February 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,512	0.1%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,054	-0.1%	10 yr bond	3.43			-0.12	90 day BBSW	3.35	0.01
Japan Nikkei	27,402	0.2%	3 yr bond	3.05			-0.10	2 year bond	3.10	-0.04
China Shanghai	3,444	0.0%	3 mth bill rate	3.55			0.00	3 year bond	3.15	-0.06
German DAX	15,509	2.2%	SPI 200	7,472.0			25	3 year swap	3.46	-0.11
UK FTSE100	7,820	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.54	-0.03
<b>Commodities (close &amp; change)*</b>			TWI		62.6	-	-	62.6	<b>United States</b>	
CRB Index	271.6	-0.2	AUD/USD	0.7133	0.7158	0.7069	0.7084	3-month T Bill	4.49	-0.04
Gold	1,912.31	-38.2	AUD/JPY	91.89	92.16	90.88	91.21	2 year bond	4.10	-0.01
Copper	9,039.25	-33.5	AUD/GBP	0.5764	0.5806	0.5757	0.5789	10 year bond	3.40	-0.01
Oil (WTI futures)	75.83	-0.6	AUD/NZD	1.0979	1.0985	1.0905	1.0933	<b>Other (10 year yields)</b>		
Coal (thermal)	235.35	-5.4	AUD/EUR	0.6491	0.6521	0.6477	0.6491	Germany	2.08	-0.20
Coal (coking)	346.50	-0.5	AUD/CNH	4.7949	4.8116	4.7627	4.7719	Japan	0.50	0.01
Iron Ore	122.70	-1.4	USD Index	101.14	101.91	100.82	101.72	UK	3.01	-0.30

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:** The European Central Bank (ECB) and Bank of England (BoE) hiked their respective benchmark rates by 50 basis points overnight. Global bonds extended their rallies. European bond yields at the long end collapsed.

**Share Markets:** Most US share markets finished higher on optimism the US Federal Reserve may be nearing a peak in its hiking cycle. The S&P 500 index rose 1.2% and the Nasdaq surged 3.3%. The Dow narrowly finished in the red, closing down just 0.1%.

**Interest Rates:** US Treasuries (i.e. prices) extended a global bond rally overnight. The US 2-year bond yield fell 1 basis point and so too did the 10-year yield.

There were much sharper rallies in European markets. The German 10-year bond yield dropped 20 basis points and the yield on the 10-year gilt collapsed 30 basis points after both the ECB and BoE hiked by 50 basis points last night.

**Currencies:** The US dollar lifted against every G10 currency overnight except the Japanese yen. Both the euro and pound depreciated after decisions from their respective banks to raise rates with some hints that their hiking cycles were nearing a peak. The AUD/USD fell from an overnight high of 0.7158 to a low of 0.7080 as it prepares for the Reserve Bank decision next week on Tuesday.

**Commodities:** Oil fell last night after hikes from the ECB and BoE lifted the odds of a sharper downturn

in economic activity in the euro area and UK. Gold also fell sharply.

**Australia:** New residential building approvals rose a surprise 18.5% in December, partly unwinding a 21% fall in the monthly rate of new approvals between August and November 2022.

Is December's strong result a sign of better things to come? Probably not. Underlying weakness in approvals in December was masked by a sharp rise in high-rise apartment approvals in NSW and VIC.

The rate of new private sector dwelling approvals has been steadily declining from a peak in early 2021. Surging material and labour costs in the construction sector have combined with rising interest rates to sap demand for new housing.

Private sector house approvals fell 2.3% in December. New house approvals have tumbled 37.5% since their March 2021 peak and are running below the average rate of the past decade.

Private sector multi-density approvals surged 56.6% in December. Despite the monthly spike, multi-density approvals are not immune to the headwinds facing new housing demand. The 3-month moving average reveals a gradual slowdown has also been underway for multi-density building approvals since peaking in May 2021.

The slowdown is likely to persist for some time until some of the headwinds facing the housing sector reverse. However, the rapid resumption in overseas

migration will lift demand for new housing and may provide some support to new dwelling approvals.

**Europe:** The ECB raised interest rates by 50 basis points, taking the benchmark deposit rate to 2.5% - the highest rate since the global financial crisis.

ECB's President Christine Lagarde explicitly signalled at least one more rate hike in March was likely but hedged her bets by adding it isn't "irrevocable." The euro-area economy has proven more resilient than expected and risks to growth and inflation are becoming more balanced.

**United Kingdom:** The BoE has increased its key interest rate by 50 basis points to 4%. The move was widely expected and takes the bank rate to its highest level since 2008.

The BoE's Monetary Policy Committee (MPC) said its rate hikes going back to December 2021 were likely to become an increasing drag on the economy, helping to bring inflation down to about 4% by the end of this year. Previously the BoE had forecast 2023 inflation at around 5%.

The BoE Governor Andrew Bailey said "we've seen the first signs that inflation has turned the corner." But he added that "it's too soon to declare victory just yet, inflationary pressures are still there." Bailey said the MPC would need to be "absolutely sure" that inflation was receding.

The MPC statement said further interest rate hikes would hinge on evidence of more persistent price pressures. Previously the MPC said it would "respond forcefully, as necessary" to signs of further inflation pressure, and that "further increases in Bank Rate may be required".

Interest-rate markets are now priced for one more rate hike from the BoE in March, in contrast to expectations before the meeting that it would probably raise rates twice more this year to reach 4.50% by June.

**United States:** New orders for manufactured goods rebounded in December by 1.8%, but higher interest rates are weighing on business spending on equipment, which could keep manufacturing under pressure. The result matched consensus forecasts. On a year ago, factory orders are up 11.8%.

The lift in factory orders in December was driven by a 16.9% jump in bookings for transportation equipment. Orders excluding transport fell 1.2% in the month. And orders for non-defence capital goods, excluding aircraft, which are seen as a measure of business spending plans on equipment, dipped 0.1% in December.

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

NZ ANZ Consumer Confidence Jan prev 73.8 (8am)

AU Housing Finance Dec (11:30am)

Total Loans exp prev

Owner Occupier Loans exp prev

Investor Loans exp prev

CH Caixin Composite PMI Jan pre 48.3 (12:45pm)

CH Caixin Services PMI Jan exp 51.0 pre 48.0 (12:45pm)

EZ Producer Prices Dec exp -0.4% prev -0.9% (9pm)

US Non Farm Payrolls Jan exp 190k prev 223k (12:30am)

US Unemploy. Rate Jan exp 3.6% prev 3.5% (12:30am)

US Avg Hourly Earnings Jan exp 0.3% prev 0.3% (12:30am)

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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