

Morning Report

Monday, 17 April 2023

| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|---|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200 | 7,362 | 0.5% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 33,886 | -0.4% | 10 yr bond | 3.40 | | | 0.08 | 90 day BBSW | 3.65 | 0.01 |
| Japan Nikkei | 28,493 | 1.2% | 3 yr bond | 3.02 | | | 0.10 | 2 year bond | 2.97 | 0.01 |
| China Shanghai | 3,499 | 0.6% | 3 mth bill rate | 3.68 | | | 0.03 | 3 year bond | 2.96 | 0.01 |
| German DAX | 15,808 | 0.5% | SPI 200 | 7,390.0 | | | 12 | 3 year swap | 3.46 | 0.09 |
| UK FTSE100 | 7,872 | 0.4% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 3.32 | 0.05 |
| Commodities (close & change)* | | | TWI | 60.3 | - | - | 60.3 | United States | | |
| CRB Index | 276.2 | 0.6 | AUD/USD | 0.6783 | 0.6806 | 0.6695 | 0.6706 | 3-month T Bill | 4.86 | -0.01 |
| Gold | 2,004.17 | -36.1 | AUD/JPY | 89.93 | 90.09 | 89.51 | 89.75 | 2 year bond | 4.10 | 0.13 |
| Copper | 9,031.25 | -35.5 | AUD/GBP | 0.5416 | 0.5435 | 0.5392 | 0.5400 | 10 year bond | 3.51 | 0.07 |
| Oil (WTI futures) | 82.52 | 0.4 | AUD/NZD | 1.0772 | 1.0820 | 1.0736 | 1.0805 | Other (10 year yields) | | |
| Coal (thermal) | 191.50 | -3.9 | AUD/EUR | 0.6142 | 0.6146 | 0.6096 | 0.6100 | Germany | 2.44 | 0.07 |
| Coal (coking) | 272.50 | -0.5 | AUD/CNH | 4.6624 | 4.6641 | 4.6010 | 4.6050 | Japan | 0.48 | 0.00 |
| Iron Ore | 114.40 | -2.1 | USD Index | 100.98 | 101.75 | 100.79 | 101.58 | UK | 3.67 | 0.09 |

Data as at 7:30 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A rise in consumer inflation expectations and hawkish comments from Fed officials prompted an upward repricing in interest rate expectations. Treasury yields and the US dollar firmed, while equities closed down.

Share Markets: US equities finished the week in the Red on Friday as investors ramped up expectations for another Fed rate hike in May. The S&P 500 closed down 0.2%, paring the weekly gain to 0.8%. The Dow Jones and the NASDAQ both softened 0.4% on Friday to be up 1.2% and 0.3% on the week, respectively.

The ASX was 0.5% higher on Friday, closing out the week 2.0% higher.

Interest Rates: US treasury yields jumped on Friday, led by increases at the short end of the curve. The 2-year treasury yield advanced 13 basis points to 4.10%, while the 10-year yield was up 7 basis points to 3.51%.

Interest rate markets are pricing an 82% probability of a 25-basis point rate hike from the Fed in May. This is up from around 71% on Thursday's close.

Aussie bond futures mirrored the moves in US treasuries. The 3-year government bond (futures) yield gained 10 basis points to 3.02%, while the 10-year (futures) yield rose 8 basis points to 3.40%.

Interest rate markets see just a 13% chance of a 25-basis points hike from the Reserve Bank (RBA) in May and expect rate cuts to be the next move.

Foreign Exchange: Higher interest rate expectations in the US weighed on the Aussie dollar on Friday, as the pair retraced its recent run above 0.6780. The AUD/USD pair initially traded to a 3-week high of 0.6806, but was unable to hold on to gains, falling to a low of 0.6695 before closing at 0.6707.

The US dollar strengthened on the back of higher yields. The DXY index rose from a low of 100.79 to a high of 101.75 and is currently trading around 101.58.

Commodities: Commodity prices were broadly softer on Friday. Oil was the exception, edging higher to US\$82.52 per barrel.

Australia: There were no major economic data releases on Friday.

Europe: European Central Bank (ECB) boss, Christine Lagarde, commented on the ongoing stalemate in US congress regarding the debt ceiling. On whether a default was likely, Lagarde commented "I just cannot believe that they would let such a major – major – disaster happen".

New Zealand: Net migration surged to 11,655 in February – the strongest monthly migration inflow on record going back to 2001. This followed an upwardly revised 6,445 person migration inflow in January.

The BusinessNZ manufacturing purchasing managers' index (PMI) fell to 48.1 in March from a revised reading of 51.7 in February. This was the

softest reading in three months and points to contraction in the manufacturing sector.

United States: The US Treasury Secretary, Janet Yellen, said that US financial institutions may tighten lending and do some of the Fed's work for it. But Yellen noted she did not expect the tightening in lending to be enough to significantly change her economic forecasts saying "the outlook remains one for moderate growth and continued strong labour market and inflation coming down".

FOMC member Christopher Waller said "because financial conditions have not significantly tightened, the labour market continues to be strong and quite tight, and inflation is far above target, so monetary policy needs to be tightened further. How much further will depend on incoming data on inflation, the real economy and the extent of tightening in credit conditions".

Trade price indices softened by more than expected in March, reflecting the deflationary forces underway in the economies of the US and its major trading partners. Import prices declined 0.6% in the month, following a revised 0.2% fall in February. Import prices were 4.6% lower in annual terms, the softest print since May 2020. Export prices were off 0.3% in March following a 0.4% rise in February. Export prices were 4.8% lower in annual terms, also registering the softest number since May 2020.

Retail sales surprised to the downside in March, adding to evidence that the US economy is beginning to slow alongside rapid interest rate hikes. Retail sales fell 1.0% in the month following a revised 0.2% decline in February. This compared to expectations for a 0.5% fall in sales.

Industrial production advanced 0.4% in March, beating expectations for a 0.2% gain. The result followed an upwardly revised 0.2% increase in production in February.

Business inventories expanded 0.2% in February following a 0.2% contraction in January. A faster-than-expected slowing in retail spending points to some risk of accumulating excess inventories.

The University of Michigan (UoM) consumer sentiment index printed at 63.5 in April, up marginally from 62.0 in March. The assessment of both current and future conditions improved. The survey revealed an alarming increase in short-term inflation expectations from 3.6% in March to 4.6% in April. However, longer-term inflation expectations remained unchanged at 2.9%. The result will keep the Fed focused on the inflation fight and its need to ensure inflation expectations

do not become unanchored.

Today's key data and events:

US NY Empire Mfg Apr exp -18.0 prev -24.6 (10:30pm)

US NAHB Housing Market Index Apr exp 45 prev 44 (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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