

# Morning Report

Friday, 20 January 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,435	0.6%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	33,045	-0.8%	10 yr bond	3.41		0.08		90 day BBSW	3.31	-0.01
Japan Nikkei	26,405	-1.4%	3 yr bond	3.02		0.05		2 year bond	2.89	-0.21
China Shanghai	3,396	0.5%	3 mth bill rate	3.44		0.03		3 year bond	2.96	-0.21
German DAX	14,920	-1.7%	SPI 200	7,385.0		-1		3 year swap	3.43	-0.13
UK FTSE100	7,747	-1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.32	-0.22
<b>Commodities (close &amp; change)*</b>			TWI	62.3	-	-	61.2	<b>United States</b>		
CRB Index	276.6	0.5	AUD/USD	0.6936	0.6948	0.6872	0.6912	3-month T Bill	4.52	-0.03
Gold	1,932.49	28.4	AUD/JPY	89.39	89.53	88.12	88.79	2 year bond	4.11	0.03
Copper	9,307.50	-21.5	AUD/GBP	0.5622	0.5627	0.5568	0.5580	10 year bond	3.40	0.03
Oil (WTI futures)	80.38	0.9	AUD/NZD	1.0791	1.0819	1.0737	1.0804	<b>Other (10 year yields)</b>		
Coal (thermal)	298.85	-2.1	AUD/EUR	0.6429	0.6436	0.6350	0.6384	Germany	2.07	0.04
Coal (coking)	330.50	7.5	AUD/CNH	4.6969	4.7025	4.6675	4.6843	Japan	0.44	-0.02
Iron Ore	125.65	1.9	USD Index	102.43	102.48	101.99	102.09	UK	3.28	-0.04

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:** Hawkish remarks from officials in the US and Europe around inflation pushed share markets lower on concerns about growth.

**Australia:** The unemployment rate held steady at 3.5% in December, but November's result was revised up from 3.4%. December recorded a fall in jobs of -14.6k - the first monthly decline in five months. The participation rate eased to 66.6% in December, from a record high of 66.8%. But these results are anything but doom and gloom.

A 17.6k increase in full-time jobs was more than offset by a 32.2k decline in part-time jobs. Most of the decline in employment was accounted for by people leaving the labour force rather than losing their jobs and joining the unemployment pool.

Employment growth averaged 37.7k per month in 2022 with a total annual increase of 452k, the biggest increase in employment in a calendar year on record. While still incredibly strong, job gains slowed though 2022. Over the first half of 2022 there was 326.9k jobs added, while only 125.1k jobs were added over the second half of the year.

At the same time the working age population increased by 436k over 2022, also the biggest increase on record. In contrast to employment gains, population growth accelerated in the second half of 2022, increasing by 231k compared with 205k over the first half of the year.

The current surge in net overseas migration will

help bring demand and supply of labour into better balance over time.

The McDermott Miller employment confidence index fell by 7.2 points to a level of 108.0 in the December quarter. People's perceptions about the current state of the labour market were only modestly weaker and remain at a high level. However, the outlook for the year ahead has markedly softened.

**Europe:** ECB President Christine Lagarde has warned that inflation figures remain "way too high" despite optimism that price growth may have recently peaked. Speaking at a panel at the World Economic Forum in Davos, Lagarde reiterated the ECB's plan to bring inflation in the euro zone back down to its 2% target through aggressive monetary policy decisions. The ECB has increased interest rates by a total of 250 basis points at its last four meetings.

ECB member Knot was also hawkish, saying "our president has already announced that most of the ground that we have to cover we will cover at a constant pace of multiple 50 basis point hikes...it will not stop after a single 50 bp rate hike - that is for sure...core inflation has not yet turned the corner in the euro area".

**New Zealand:** NZ's Prime Minister Jacinda Ardern announced yesterday that she won't be contesting the next election later this year and will be stepping

down next month.

**United States:** Housing starts decreased 1.4% to a rate of 1.382 million units last month and fell 3.0% in 2022. The median consensus was that starts would slide to a rate of 1.359 million units in December.

The Philadelphia Fed business survey rose to -8.9 in January, from -13.7 in December and against consensus forecasts for an outcome of -11.0. Prices paid fell but employment and orders rose.

Weekly jobless claims were lower than anticipated. Initial claims for the latest week printed at 190k vs consensus expectations for 214k - indicating that the labour market remains tight.

The Fed's Vice Chair, Lael Brainard, said rates will need to stay elevated to further cool inflation that's still too high. She didn't give a preference for whether the Fed should downshift to a 25-basis-point rate hike on February 1. Colleague Susan Collins favours a more moderate pace to get the benchmark "just above 5%" before holding "at that level for some time."

The US Treasury began tapping two government-run retirement funds to avoid a default after the debt ceiling was hit, steps that should allow payments to last until early June. Janet Yellen urged Congress to boost the borrowing limit.

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

NZ BusinessNZ Mfg PMI Dec prev 47.4 (8:30am)

NZ Net Migration Nov prev 3343 (8:45am)

JN CPI y/y exp 4.0% prev 3.8% (10:30am)

UK Retail Sales Incl Auto Fuel Dec exp 0.5% prev -0.4% (6pm)

US Existing Home Sales Dec exp 3.95mn prev 4.09mn (2am)

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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