Morning report

Wednesday, 1 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,258	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,655	-0.7%	10 yr bond	3.89		0.03		90 day BBSW	3.56	0.01
Japan Nikkei	27,446	0.1%	3 yr bond	3.65		0.04		2 year bond	3.59	-0.04
China Shanghai	3,438	0.7%	3 mth bill rate	3.68		0.01		3 year bond	3.60	-0.04
German DAX	15,365	-0.1%	SPI 200	7,177.0		-21		3 year swap	4.09	0.02
UK FTSE100	7,876	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.85	-0.02
Commodities (close & change)*			TWI	61.4	-	-	61.4	**United States**		
CRB Index	269.8	1.2	AUD/USD	0.6739	0.6758	0.6704	0.6726	3-month T Bill	4.66	-0.04
Gold	1,827.23	10.1	AUD/JPY	91.83	92.20	91.56	91.57	2 year bond	4.80	0.02
Copper	8,795.50	90.0	AUD/GBP	0.5589	0.5598	0.5546	0.5592	10 year bond	3.91	0.00
Oil (WTI futures)	76.92	1.2	AUD/NZD	1.0927	1.0948	1.0878	1.0882	**Other (10 year yields)**		
Coal (thermal)	192.85	-3.7	AUD/EUR	0.6353	0.6371	0.6323	0.6360	Germany	2.65	0.07
Coal (coking)	345.50	0.5	AUD/CNH	4.6908	4.6992	4.6680	4.6748	Japan	0.51	0.00
Iron Ore	124.75	0.7	USD Index	104.66	104.93	104.42	104.92	UK	3.83	0.02

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: Equities were generally down as investors digested a range of global economic indicators released overnight. Stronger than expected inflation data in Europe, coupled with US partial economic indicators that suggest the US economy remains resilient, is fuelling concerns that central banks may need to tighten by more than previously expected. This increases the likelihood of a hard landing. Bond yields were mixed, the US dollar advanced against a basket of major currencies and oil and gold were also higher.

Share Markets: US equities were volatile. After posting gains in early trade the tone shifted as economic data suggested that the US economy remained resilient and global inflationary pressures remain stubbornly high. This may mean interest rates need to go higher, increasing chances of a recession. The S&P 500 ended 0.2% lower, the Dow Jones ended 0.7% lower, and the Nasdaq was 0.1% lower.

European stocks also finished lower with the FTSE 100 down by 0.7% on the day and the Euro Stoxx 50 also down 0.2%.

The ASX 200 closed 0.5%, or 33.6 points, higher on yesterday's trade. Energy and mining stocks led the gains. However, over the month of February, the ASX 200 was down by 2.9%.

Interest Rates: Bond yields were mixed. The policy sensitive 2-year US bond yield increased by 2 basis points, to 4.80%. The 10-year was unchanged at 3.91%.

Interest-rate markets are pricing the Federal funds rate to be 29 basis points higher at the March meeting, implying a more than 100% chance of a 25-basis-point hike and some chance of a more aggressive 50-basis-point move. Markets are expecting rates to peak at 5.40% in the back half of 2023.

Australian government bond yields (futures) were higher. The 3-year Australian government bond yield (futures) increased by 4 basis points, to 3.65%. The 10-year government bond yield (futures) increased by 3 basis points to 3.89%

Interest-rate markets are pricing 19 basis points of tightening at the RBA's March meeting and expect the cash rate to peak at around 4.27% in late 2023.

Currencies: The US dollar edged higher against a basket of major currencies. The USD Index increased from a low of 104.42 to a high of 104.93 during the New York session. It is currently trading around 104.92.

The AUD/USD pair declined, mirroring the change in the US dollar. The pair declined from a high of 0.6758 during the London session, to a low of 0.6704 during the New York session. It is currently trading around 0.6726.

Commodities: Commodities were higher, except for thermal coal. The West Texas Intermediate (WTI) futures contract increased and is now trading around USD77 per barrel.

Australia: CoreLogic's Home Value Index declined by 0.14% over the month of February 2021. This was a sharp reduction in the rate of decline and the smallest monthly fall since May 2022 when rate hikes commenced. A 0.3% rise in Sydney dwelling values was the most significant driver of the national deceleration in price falls.

Retail trade increased by 1.9% over the month of January 2023, partly retracing the revised 4.0% fall in December 2022. The bounce was recorded across most spending categories and all states.

Spending over the four months to January 2023 has been heavily impacted by seasonality. Looking through this seasonality, it is evident that spending growth has eased. In fact, over the four months to the end of January 2023, retail trade has fallen by 0.2%.

Consumers have pulled back on certain discretionary items – retail trade excluding food and cafes, restaurants & takeaway food has fallen by 2.1% over the four months to January. This includes spending at department stores and on household goods and clothing & footwear.

A larger population will continue to support higher food consumption going forward. However, other components of retail spending such as household goods and clothing & footwear are likely to continue to slow.

Private Credit grew by 0.4% in January, taking annual credit growth to 8.0% - it's slowest pace in almost a year. The easing in credit growth remains orderly. Indeed, the monthly pace of growth ticked up from an anaemic 0.3% increase in December and is currently sitting around the 10-year average.

After a material slowing in the rate of business credit growth late in 2022, business lending rebounded slightly in January, rising 0.5%, from 0.3% in December. But the monthly pace remains well below that seen earlier in the cycle (1.2%-1.6%), confirming that we have moved passed the peak in business credit growth.

Housing credit rose 0.3% in January, unchanged from December's pace. Annual growth slowed to 6.1%, from a peak of 7.9% in May, when the rate-hike cycle commenced. Investor lending stalled in December, advancing just 0.2%, while owner-occupier lending was steady at 0.4%.

A pronounced slowdown in private sector credit growth is underway but remains in its infancy. As the cash rate moves higher, we expect the softening in credit appetite to deepen.

Australia's current account surpluses was $14.1 billion in the December quarter, an increase of $13.4 billion.

The current account surplus was driven by a $9.5 billion widening in the trade surplus (to $40.9 billion). A $4.0 billion narrowing in the primary income deficit (to $26.4 billion) also contributed to the surplus.

In volume terms (i.e. stripping out prices), exports rose 1.1% and imports declined 4.3%. Services exports (+9.8%) drove exports as international students and tourists continue to return to Australian shores at a rapid pace. Goods (-3.8%) and services (-6.5%) imports both pulled back.

Net exports are expected to contribute 1.1 percentage points to GDP in the December quarter. The terms of trade, which is a ratio of export prices to import prices, rose 0.5% in the quarter, to be 7.2% higher over the year.

Japan: Industrial production declined by 4.6% over the month of January 2023. This was a steeper fall than the 2.9% decline the market was expecting. Industries that contributed to the decline were motor vehicles, production machinery and electronic parts and devices. On an annual basis, industrial production fell 3.1% in January, the third straight month of annual decline.

New Zealand: The business confidence index climbed to -43.3 in February from -52.0 in January. This was the highest reading since October 2022. The own activity outlook indicator strengthened led by construction and services. Inflation expectations remained at around 6% and cost expectations stayed at high levels. Despite the improvement, the index remained at subdued level. Among sectors, residential construction continued to be the most subdued.

Europe: Inflation data strengthened the case for more hikes in the Euro area. Headline inflation in France jumped by a record 7.2% in February driven by increases in food and services prices. This was higher than the 7.0% expected by the market. Spain saw an acceleration in headline inflation to 6.1%, higher than the 5.8% the market was expecting.

United States: The Conference Board Consumer Confidence Index decreased in February for the second consecutive month. The Index now stands at 102.9, down from 106.0. The market was expecting an improvement to 108.5 index points. The fall was driven by increasingly pessimistic outlook for income, business, and labour market conditions. The consumer outlook remains deeply entrenched in negative territory and well below 80 index points —the level which often signals a recession within the next year.

S&P CoreLogic CS House Price Index fell by 0.5% over the month of December 2022. This was a slightly worse fall than the 0.4% fall the market was expecting. It was in line with the 0.5% decline recorded in November. In annual terms, house prices were 4.7% higher.

The Federal Housing Finance Agency House Price Index declined by 0.1% over the month of December 2022. Over the December quarter 2022, the house price index was 8.4% higher compared to the December quarter 2021.

The Chicago Purchasing Managers' Index (PMI) fell for a second consecutive month to 43.6 in February 2023, from 44.3 in January. This was softer than the 45.3 points the market was expecting. The outcome points to further softening in economic activity in the Chicago region.

The Richmond Fed Manufacturing Index declined to by 2 index points to -16 points, the lowest since May of 2020. This was lower than the -5 points the market was expecting. Of its three components, shipments and employment declined while the new orders index remained unchanged.

The Dallas Fed General Business Activity index for services in Texas went up to -9.3 in February 2023, from -15 in January. The company outlook index recorded a considerable improvement, while the index measuring the outlook on uncertainty declined.

Today's key data and events:

AU RBA Assistant Gov Brad Jones Remarks (9:30am)
AU GDP Q4 (11:30am)
  q/q exp 0.8% prev 0.6%
  y/y exp 2.8% prev 5.9%
AU Monthly CPI Jan exp 7.8% prev 8.4% (11:30am)
CH Manufacturing PMI Feb prev 50.1 (12:00pm)
CH Non-manufacturing PMI Feb prev 54.4 (12:00pm)
CH Caixin Mfg PMI Feb prev 49.2 (12:45pm)
EZ CPI Feb (12:00am)
JN Nikkei PMI Mfg Feb final (11:30am)
NZ Building Permits Jan prev -7.2% (8:45am)
UK Markit Manufacturing PMI Feb final (8:30pm)
US Markit Manufacturing PMI Feb Final (1:45am)
US Construction Spending Jan exp 0.2% prev -0.4% (2:00am)
US ISM Mfg Feb exp 48.0 prev 47.4 (2:00am)

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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