Morning Report

Monday, 13 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,145	-2.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	31,910	-1.1%	10 yr bond	3.49		-0.10		90 day BBSW	3.64	0.00
Japan Nikkei	28,144	-1.7%	3 yr bond	3.18		-0.15		2 year bond	3.36	-0.09
China Shanghai	3,386	-1.4%	3 mth bill rate	3.90		-0.08		3 year bond	3.34	-0.10
German DAX	15,428	-1.3%	SPI 200	7,109.0		-39		3 year swap	3.71	-0.08
UK FTSE100	7,748	-1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.58	-0.13
Commodities (close & change)*			TWI	60.5	-	-	60.5	**United States**		
CRB Index	265.0	0.3	AUD/USD	0.6587	0.6640	0.6565	0.6582	3-month T Bill	4.75	-0.11
Gold	1,868.26	37.2	AUD/JPY	89.67	90.25	88.63	88.85	2 year bond	4.59	-0.28
Copper	8,848.00	14.0	AUD/GBP	0.5527	0.5533	0.5466	0.5470	10 year bond	3.70	-0.20
Oil (WTI futures)	76.68	1.0	AUD/NZD	1.0794	1.0813	1.0724	1.0730	**Other (10 year yields)**		
Coal (thermal)	219.25	6.0	AUD/EUR	0.6227	0.6237	0.6178	0.6186	Germany	2.51	-0.14
Coal (coking)	364.00	-1.3	AUD/CNH	4.5984	4.6044	4.5573	4.5670	Japan	0.41	-0.10
Iron Ore	129.55	0.8	USD Index	105.27	105.35	104.04	104.64	UK	3.64	-0.16

Data as at 7:00 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Silicon Valley Bank (SVB) became the largest financial institution to fail since the 2008 GFC. Fears of contagion were high in financial markets on Friday. The US payrolls outcome was above consensus expectations again, but investors focussed on the demise of SVB.

US bond yields fell sharply. The US 2-year yield posted its biggest one-day drop since September 2008. Share markets were a sea of red across US and Europe. And the AUD/USD fell to a 4-month low of 0.6565 as risk aversion jumped. The VIX volatility index jumped 2.2 points to a 3-month high of 24.8.

Share Markets: Wall Street's main indexes ended more than 1% lower on Friday as banking shares fell heavily and investor fears about the health of US banks spiked after the failure of SVB. The Dow fell 1.1%, the S&P 500 1.5% and the Nasdaq 1.8%. European share market indices were also a sea of red. The Euro Stoxx 50 index fell 1.3% at the close.

Interest Rates: The collapse of SVB led to strong demand for the safety of government bonds, leading to sharp falls in bond yields. The US 2-year bond yield fell 28 basis points to 4.59% – the biggest daily fall since late September 2008. The US 10-year bond yield fell 20 basis points on Friday to close near its lows for the session at 3.70% – the biggest one-day fall since 10 November 2022.

Foreign Exchange: The US dollar index was sold off heavily on the release of the payrolls report with the key currencies of the euro, yen, pound and swiss franc strengthening against the US dollar. The USD index fell from a high of 105.4 to a low of 104.0. The AUD/USD fell from 0.6640 to a four-month low of 0.6565. A fall towards 0.6400 can't be ruled out in the short-term. The AUD/USD is under selling pressures due to heightened volatility from the SVB fallout and the heightened risk of a Reserve Bank rate-hike pause next month. There's also a clear downward trend in place since February 2 when the AUD/USD was at 0.7158.

Commodities: Oil prices climbed on Friday after better-than-expected US payrolls data. On the supply side, major oil producers - Saudi Arabia and Iran - both members of the Organization of the Petroleum Exporting Countries, re-established ties after days of previously undisclosed talks in Beijing. The US government was also reported to have privately urged some commodity traders to shed concerns about shipping price-capped Russian oil in a bid to shore up supply.

Australia: There was no major economic data on Friday.

Europe: Germany's consumer price index (CPI) rose by 8.7% in the twelve months to February. This result was in line with expectations by the market, however, it highlights the ongoing elevated and stubborn nature of inflationary pressures in Europe's largest economy.

United States: Non-farm payrolls beat consensus forecasts. They rose 311,000 in February compared with expectations of 225,000. January's result was also revised slightly lower to show a net increase of 504,000 jobs instead of a previously reported 517,000. The unemployment rate ticked up from a record low of 3.4% in January to 3.6% as the participation rate lifted.

Average hourly earnings rose by 0.2% in February, a tad under consensus forecasts, and on a year ago rose 4.6%. The annual rate is a step up from the 4.4% pace in the previous month.

Federal Reserve Chair Jerome Powell has explicitly referred to Friday's jobs data as a key driver, together with next week's US inflation figures, ahead of the Fed's policy decisions on March 22.

Revisions to the personal consumption expenditure (PCE) inflation gauges showed gains in the fourth quarter were stronger and more broad-based than previously thought. These adjustments point to more persistent inflation pressures. The analysis is based on a model known as the Multivariate Core Trend.

Financial regulators closed SVB - the nation's 16th largest bank - two days after the company raised capital and sold assets below cost. The Federal Deposit Insurance Corporation (FDIC) takeover takeover of SVB, which had $209 billion in assets at year end, marked the biggest US bank failure since Washington Mutual was seized in September 2008.

The ripple effects are expected to go beyond those that had close ties to SVB. For starters, there is likely to be more intense regulatory scrutiny of regional banks.

Federal Treasury Secretary Yellen said that "a few" banks were being monitored.

Soon before the FDIC stepped in, SVB was forced to sell most of its available-for-sales securities at a loss to offset a drop in customer deposits. It announced a $2.25 billion capital raising but it was too little too late.

SVB had been in business for 40 years as a lender to some of the technology sector's biggest companies.

Customer deposits tripled from 2018 to 2021 when interest rates were low and tech start-ups were cash rich. But when rates rose sharply over 2022, the venture capital market slow significantly and deposit activity at SVB. SVB invested what funds it did receive in bonds that would later lose value as rates climbed.

In the end it was SVB's decision to invest a high portion of customer deposits in bonds and mortgage-backed securities (MBS) that quickly deteriorated in value.

A tipping point was reached when SVB suffered a near $2 billion loss from selling securities and turned to the capital markets for help. Venture capital funds advised companies to pull their SVB deposits, which led to the sharp sell-off in the SVB stock price and regulatory intervention.

Today's key data and events:

NZ Perf of Services Index Feb prev 54.5 (8:30am)

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.

Besa Deda, Chief Economist
Ph: +61 404 844 817

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@banksa.com.au
+61 401 102 789