bankSA

Morning Report

Thursday, 16 February 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,352	-1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,128	0.1%	10 yr bond	3.82		0.07		90 day BBSW	3.49	0.00
Japan Nikkei	27,502	-0.4%	3 yr bond	3.55		0.07		2 year bond	3.45	0.01
China Shanghai	3,439	-0.4%	3 mth bill rate	3.69		0.00		3 year bond	3.47	0.01
German DAX	15,506	0.8%	SPI 200	7,315.0		36		3 year swap	3.98	0.01
UK FTSE100	7,998	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.74	0.00
Commodities (close & change)*			TWI	62.5	-	-	62.5	**United States**		
CRB Index	270.4	-3.2	AUD/USD	0.6992	0.6992	0.6865	0.6907	3-month T Bill	4.64	0.00
Gold	1,838.35	-16.0	AUD/JPY	93.02	93.05	91.93	92.63	2 year bond	4.62	0.00
Copper	8,845.50	-90.0	AUD/GBP	0.5742	0.5744	0.5697	0.5740	10 year bond	3.79	0.05
Oil (WTI futures)	78.59	-0.5	AUD/NZD	1.1029	1.1033	1.0970	1.0989	**Other (10 year yields)**		
Coal (thermal)	196.00	1.5	AUD/EUR	0.6511	0.6512	0.6430	0.6462	Germany	2.48	0.04
Coal (coking)	375.00	0.0	AUD/CNH	4.7783	4.7790	4.7130	4.7418	Japan	0.51	0.00
Iron Ore	123.65	0.4	USD Index	103.24	104.11	103.16	103.84	UK	3.49	-0.03

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: Markets were choppy as investors weighed mixed US data. A very strong retail report fuelled expectations that interest rates will be higher for longer after signs earlier in the week that the disinflation process may be slowing. US equities eked gains, while treasury yields, and the US dollar were stronger.

Share Markets: US equities finished the session slightly higher after a late rally. While the strong retail outcome supports higher interest rates, it also stoked optimism that company earnings may be more resilient. The S&P 500 closed 0.1% higher, while the Dow Jones and the NASDAQ were up 0.1% and 0.9%, respectively.

The ASX 200 fell sharply yesterday, closing down 1.1% - the largest daily decline since early January. Financials were the weakest performers, while utilities and healthcare stocks outperformed. Despite yesterday's slide the ASX 200 has risen 7.0% so far in 2023. Futures are pointing to a positive open this morning.

Interest Rates: Interest rate markets were volatile as traders digested mixed US data. However, treasury yields finished broadly higher. The 2-year treasury yield ranged between 4.59% and 4.70% before finishing flat at 4.62%. The 10-year yield ranged between a low of 3.72% and a high of 3.82% but finished the session up 6 basis points at 3.80%.

Interest rate markets are fully pricing a 25-basis point hike from the Fed in March and have the peak in the fed funds rate at around 5.2% in July.

Australian futures yields followed the US higher. Both the 3-and-10-year government bond (futures) yields gained 7 basis points to 3.55% and 3.82%, respectively.

Interest rate markets are attaching a 76% probability to another 25-basis point rate hike from the Reserve Bank (RBA) in March. Markets are now pricing a peak in the cash rate of over 4.1% in the second half of 2023.

Currencies: The Aussie dollar softened on the back of a strong US dollar. The AUD/USD pair fell from a high of 0.6989 to a one-week low of 0.6865, before rallying to close around 0.6907. The late rally leaves near-term support in-tact around 0.6850.

The US dollar strengthened against a basket of major currencies on the back of the strong retail report. The DXY index traded between a low of 103.16 and high of 104.11 and is currently sitting around 103.84.

Commodities: US crude oil inventories hit their highest levels since the mid-2021 according to the International Energy Agency (IEA). However, the organisation sees a spike in demand alongside China's reopening. The West Texas Intermediate (WTI) price of oil softened, closing at US$78.69 per barrel.

Gold and copper also softened, while iron ore firmed.

Australia: The RBA Governor, Phillip Lowe, appeared before the Senate Economics Committee yesterday. Lowe reiterated the need to control inflation, including by further raising interest rates and highlighted the potential costs of not doing enough to bring inflation down.

Europe: Industrial production declined 1.1% in December following an upwardly revised 1.4% gain in November. Consensus was expecting a slightly milder 0.8% fall. Both durable and non-durable consumer goods dragged on production in the month.

The trade deficit widened to €18.1bn in December, from a revised €14.4bn deficit in November. The value of both imports and exports declined in December.

United Kingdom: The January inflation numbers came in slightly softer than anticipated, supporting expectations that the UK has passed a peak in inflation. The consumer price index (CPI) declined 0.6% in January, following a 0.4% gain in December. This was the first monthly fall in the CPI in 12 months.

In annual terms, inflation slowed to 10.1% from 10.5% in December, just inside consensus expectations for 10.3%. Annual inflation has now slowed for three consecutive months following a peak of 11.1% in October.

Core inflation, which is of keen interest to policymakers, also improved. Core inflation over the year to January slowed to 5.8%, from 6.3% in December. This will provide some confidence that domestic inflation pressures are beginning to turn.

United States: A blockbuster retail sales print for January provided another sign of resilience in the US consumer sector, suggesting the economy may not be cooling as quickly as expected. Retail sales surged 3.0% in January, beating expectations for a 2.0% gain. This was the first positive read in retail spending since October and the largest monthly gain since March 2021.

Strength in vehicle sales was underpinned by a further normalisation in supply conditions in January. However, retail sales excluding auto and fuel printed at 2.6% in the month pointing to broad-based strength in spending.

Following signs earlier in the week that the disinflation process may be slowing, the strong retail result will add pressure on the Fed to press on with interest rate hikes and supports Jerome Powell's comments that rates will be "higher for longer".

The New York Fed empire manufacturing survey improved dramatically in February but remains in negative territory. The manufacturing index jumped to -5.8, from a historically low -32.9 in January. This compares to consensus expectations which centred on a reading of -18.0. Despite the improvement, the index continues to indicate contraction in the sector amid higher costs and weaker goods demand.

Industrial production was flat in January, missing expectations for a 0.5% gain. This followed a revised 1.0% decline in production in December. Weakness was concentrated in demand for heating due to warmer than usual weather, while manufacturing output jumped in the month.

Business inventories expanded 0.3% in December, matching November's gain. Inventory growth has slowed steadily since mid-2022 as post-pandemic re-stocking largely ran its course.

The National Association of Home Builders (NAHB) housing market index rose to 42 in February, from 35 in January. This was the second consecutive monthly improvement after a 12-month string of declines. Still conditions remain weak as elevated interest rates weigh on new housing demand.

Today's key data and events:

NZ Net Migration Dec prev 6110 (8:45am)
JN Machinery Orders Dec exp 2.8% prev -8.3% (10:50am)
AU MI Cons. Inflation Expectation Feb prev 5.6% (11am)
AU Labour Force Survey Jan (11:30am)
Employment Change exp 15k prev -14.6k
Unemployment Rate exp 3.5% prev 3.5%
Participation Rate exp 66.6% prev 66.6%
US Housing Starts Jan exp -2.0% prev -1.4% (12:30am)
US Building Permits Jan exp 1.0% prev -1.0% (12:30am)
US Philad. Fed Index Feb exp -7.5 prev -8.9 (12:30am)
US PPI Jan (12:30am)
m/m exp 0.4% prev -0.5%
y/y exp 5.4% prev 6.2%

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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