

Morning Report

Monday, 20 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,995	0.4%			Last	Overnight Chg		Australia		
US Dow Jones	31,862	-1.2%	10 yr bond	3.32				90 day BBSW	3.69	0.02
Japan Nikkei	27,334	1.2%	3 yr bond	2.86				2 year bond	3.03	0.17
China Shanghai	3,407	0.7%	3 mth bill rate	3.45				3 year bond	3.01	0.16
German DAX	14,768	-1.3%	SPI 200	6,921.0				3 year swap	3.39	-0.15
UK FTSE100	7,335	-1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.39	0.06
Commodities (close & change)*			TWI	60.2	-	-	60.2	United States		
CRB Index	254.7	-2.0	AUD/USD	0.6656	0.6742	0.6648	0.6708	3-month T Bill	4.23	-0.32
Gold	1,989.24	69.7	AUD/JPY	89.03	89.51	88.08	88.30	2 year bond	3.84	-0.32
Copper	8,580.25	63.5	AUD/GBP	0.5497	0.5531	0.5487	0.5496	10 year bond	3.43	-0.15
Oil (WTI futures)	66.74	-1.6	AUD/NZD	1.0743	1.0764	1.0667	1.0705	Other (10 year yields)		
Coal (thermal)	175.05	-4.6	AUD/EUR	0.6273	0.6306	0.6262	0.6275	Germany	2.11	-0.18
Coal (coking)	353.00	1.0	AUD/CNH	4.5887	4.6402	4.5862	4.6162	Japan	0.29	-0.03
Iron Ore	129.50	-1.3	USD Index	104.45	104.48	103.69	103.86	UK	3.28	-0.14

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: UBS Group AG agreed to buy Credit Suisse Group AG in a historic, government-brokered deal aimed at containing a crisis of confidence that had started to spread across global financial markets. Confidence remains on a knife's edge and the US Federal Reserve 2-day meeting starts on March 22.

Share Markets: Major share markets fell, as financial stability concerns continued to weigh on the market. The Dow fell 1.2%, the S&P 500 declined 1.1% and the Nasdaq fell 0.7%. In Europe, the Euro Stoxx 50 dropped 1.3%.

Interest Rates: US yields fell sharply across the curve. The US 2-year yield plunged 32 basis points on Friday. For the week, it fell a net 75 basis points after losing 27 basis points in the prior week. The US 2-year yield closed at 3.84% - its lowest level since mid September last year.

The US 10-year bond yield closed 15 basis points lower. It is down 27 basis points for the week after losing 20 basis points in the week prior.

Interest-rate markets are pricing in a chance of 60% that the Fed will hike the fed funds rate by 25 basis points when they meet later this week on March 22. Markets are also fully priced for rate cuts starting from July.

In Australia, markets are attaching only a probability of 13% to a rate hike of 25 basis points

in April from the Reserve Bank (RBA); just prior to the financial stability concerns emerged in the US, this probability was just under 50%. Markets are currently pricing that the RBA has finished its tightening cycle – that is, no further hikes are priced in.

Foreign Exchange: The AUD/USD rose to as high as 0.6740 but is under fresh selling pressures. The AUD/USD is likely to continue to be very volatile and remain in a range of 0.6565 to 0.6790. We saw some risk the AUD/USD could fall under 0.6500, however, the market appears reluctant to take the AUD under 0.6565. In the past week, it has tested this support level 4 times.

Commodities: Oil dropped and gold jumped.

Australia: There was no major economic data on Friday.

China: China had its biggest gain in imports in a year and snapping four months of declines. Annual imports rose by 4.3% in the year to February. The slide in annual exports growth slowed to 1.3%. The trade surplus narrowed to US\$16.8 billion.

An official from China's central bank's said the collapse of Silicon Valley Bank shows rapid monetary policy shifts in developed nations are harming financial stability. It was the first official public comment from the People's Bank of China.

Eurozone: UBS will buy Credit Suisse (CS) for 3

billion Swiss francs (US\$3.25 billion) in a government-brokered deal aimed at containing a spreading crisis of confidence. The all-share takeover is at a fraction of CS's closing price on Friday. Swiss authorities had also considered a full or partial nationalisation.

In other details, the Swiss National Bank (SNB) has offered UBS around \$100 billion in liquidity to help it take on CS. The Swiss government also granted UBS a 9 billion franc guarantee on CS losses. The government support will trigger a complete write-down of all CS's additional tier 1 bonds, rendering about 16 billion francs of debt worthless.

US and Swiss authorities have been working together as both lenders have US operations and are considered systemically important. The Swiss Finance Minister has said a CS default would have had "grave consequences" for the global financial system.

United States: In the US finance sector, New York Community Bancorp is pursuing a deal to buy failed Signature Bank. The Federal Deposit Insurance Corporation (FDIC) could announce a deal for Signature as soon as this week. Meantime, First Republic will be downgraded again by S&P just days after it cut the lender to junk.

The FDIC is deciding whether to pursue a full sale or break up of Silicon Valley Bank, with First Citizens among potential buyers.

A coalition of mid-size US banks have asked regulators to extend FDIC insurance to all deposits for two years to avoid a wider run.

The US Federal Reserve meets this week for 2 days starting on March 22 to decide on monetary policy. The Fed is between a rock and a hard place as its inflation fight collides with banking turmoil. The banking turmoil have impacted confidence and bank deposits, which will affect lending to companies and households. More tightening could exacerbate those risks, but standing pat could prolong high prices while also possibly alarm the public that a major crisis is under way.

Today's key data and events:

UK Rightmove House Prices Mar prev 0.0% (11:01am)
EZ Trade Balance Jan prev -€18.1bn (9pm)

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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