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Morning Report

Thursday, 23 February 2023

Equities (close & % change)		
S&P/ASX 200	7,315	-0.3%
US Dow Jones	33,046	-0.3%
Japan Nikkei	27,104	-1.3%
China Shanghai	3,450	-0.5%
German DAX	15,400	0.0%
UK FTSE100	7,931	-0.6%
Commodities (close & change)*		
CRB Index	266.1	-2.4
Gold	1,825.06	-10.0
Copper	9,198.50	64.8
Oil (WTI futures)	73.93	-2.4
Coal (thermal)	199.65	2.7
Coal (coking)	375.33	-1.7
Iron Ore	130.45	0.4

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	3.88		0.00	
3 yr bond	3.58		-0.01	
3 mth bill rate	3.68		0.02	
SPI 200	7,228.0		-20	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	62.4	-	-	62.4
AUD/USD	0.6855	0.6865	0.6795	0.6805
AUD/JPY	92.50	92.69	91.68	91.84
AUD/GBP	0.5662	0.5669	0.5634	0.5650
AUD/NZD	1.1039	1.1043	1.0925	1.0945
AUD/EUR	0.6438	0.6445	0.6397	0.6418
AUD/CNH	4.7262	4.7322	4.6930	4.6996
USD Index	104.20	104.60	104.01	104.56

Interest rates (close & change)		
Australia		
90 day BBSW	3.52	0.02
2 year bond	3.57	0.01
3 year bond	3.58	0.02
3 year swap	4.01	-0.07
10 year bond	3.87	0.06
United States		
3-month T Bill	4.69	0.01
2 year bond	4.70	-0.03
10 year bond	3.92	-0.03
Other (10 year yields)		
Germany	2.52	-0.01
Japan	0.51	0.00
UK	3.60	-0.01

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: US stocks reversed early gains after the release of the US Fed's February Minutes. The Minutes pointed to further hikes, with officials noting that a "insufficiently restrictive" policy stance could stall recent progress on moderating inflation pressures. Bond yields ended lower, retracting some of the sharp gains recorded yesterday. The US dollar increased. The Aussie was weaker on the back of US dollar strength and the weaker than expected wages data.

Share Markets: US equities were moving higher in early trade, retracing some of yesterday's fall prior to the release of the Fed's February Minutes. Early gains were reversed following the release of the Minutes. The S&P 500 ended the day 0.3% lower and the Dow Jones also closed 0.3% lower. The Nasdaq increased by 0.1%.

The ASX 200 fell for the second day, dropping 0.3% yesterday. Six of the eleven sectors were lower, led by materials stocks.

Interest Rates: US government bond yields were slightly down across the curve, retracting some of the sharp increase we saw in yesterday's session. The 2-year treasury yield declined by 3 basis points, to 4.70%. The 10-year declined by 3 basis points, to 3.92%.

Interest-rate markets are now also pricing in 30 basis points of hikes at the Fed's March meeting, indicating some probability of a more aggressive 50-basis-point move. Markets are expecting the terminal Fed funds rate to be around 5.38% in mid-2023.

Australian interest-rate markets were broadly unchanged. The 3-year Australian government bond yield (futures) declined by 1 basis points, to 3.58%, while the 10-year government bond yield (futures) increased by 2 basis points to 3.68%

Interest-rate markets are pricing in 20 basis points of hikes at the RBA's March meeting and expect the cash rate to peak at 4.21% in late 2023 – slightly down on the 4.27% expected before the release of the wages data in Australia.

Currencies: The US dollar strengthened against a basket of major currencies. The USD Index rose from a low of 104.01 to a high of 104.60. It is trading at 104.56 at the time of writing.

The AUD/USD declined on the back of US dollar strength and the weaker than expected wages data. The pair fell from a high of 0.6865 to a low of 0.6795 during the New York session – the lowest level since early January. It is now trading at 0.6805.

Commodities: Commodities were generally lower. Oil, coking coal and gold were down. The West Texas Intermediate (WTI) futures contract declined further and is now trading at below USD74 per barrel. Copper, thermal coal and iron ore were higher.

Australia: The Wage Price Index (WPI) increased 0.8% over the December quarter. This was a slowdown from 1.1% in the September quarter and was also marginally weaker than the June quarter.

In annual terms, the WPI grew 3.3%, lower than the Reserve Bank's (RBA) forecast of 3.5%.

Importantly, the result disappointed and was below even the most pessimistic of economists' forecasts.

Private sector wages grew by 0.8%, to be 3.6% higher in annual terms. The quarterly pace is a significant slowdown from the 1.2% in the September quarter. Public sector wages increased by 0.7%, slightly above the September quarter outcome, to be 2.5% higher in annual terms.

The December quarter marked the sharpest annual fall in real wages on record as the stronger growth in pay packets wasn't enough to keep pace with inflation over the same period.

The weaker-than-expected outcome suggests we may have passed the peak in labour market tightness. Given the inertia in Australia's wage fixing system, we expect to see public sector wages growth tick up going forward. However, private sector wages growth could underperform on the back of a slowing economy and increased labour supply from net overseas arrivals.

Wages remain a key consideration for the RBA and today's outcome adds another piece of data to the puzzle. Given the strength of inflationary pressures, this data point alone is unlikely to dissuade the Board from a further hike in March. A lot will depend on whether inflationary expectations remain well anchored.

Construction Work Done declined by 0.4% over the December quarter. This was weaker than the increase of 1.5% the market was expecting. The fall was driven by building work, which fell by 1.6%. Engineering construction increased by 1.0%, largely on the back of infrastructure investment. Residential construction was almost 2% lower than a year ago. The lack of new housing supply is likely to put further pressure on an already tight rental market.

The Westpac-Melbourne Institute Leading Index continues to point to below-trend growth over the next 3-9 months. The Index which indicates the likely pace of economic activity relative to average three to nine months into the future, was negative 1.04% in January, unchanged on the negative 1.09% read in December.

Europe: The IFO Business Climate indicator for Germany increased to an eight-month high of 91.1 in February 2023, from 90.1 in January. Expectations for the coming months were significantly less pessimistic, while firms' assessments of their current situation worsened. Around 45% of companies complained about supply chain bottlenecks, less than 48% in January and the share of those who want to increase prices has fallen. Across sectors, the business mood in tourism and hospitality has improved.

New Zealand: The Reserve Bank of New Zealand (RBNZ) raised interest rates by 50 basis points from 4.25% to 4.75. The increase was in line with market expectations. In the Policy Statement, the RBNZ signalled that interest rates could still rise to ensure inflation returns to its target range. The Statement noted that "while there are early signs of price pressure easing, core consumer price inflation remains too high, employment is still beyond its maximum sustainable level, and near-term inflation expectations remain elevated." It made clear that increases of 50 and 75 basis points were considered and that a "50 basis point move balanced the need to ensure core inflation and inflation expectations fall, against the early signs that demand was beginning to moderate."

The trade deficit increased to NZD 1.95 billion in January 2023, an increase on the deficit of NZD 600 million recorded in December. Goods exports rose 14% in annual terms, while goods imports soared by 26% in annual term driven by purchases of petroleum products, ships, boats, and floating structures, and electrical machinery and equipment.

Retail card spending rose by 4.4 over January 2023.

Total billings in New Zealand were $4.5 billion in January, an increase of 4.4% from December. The strong rebound followed falls in November and December 2022.

United States: In February, the Fed hiked by 25 basis points. This lifted the benchmark policy rate into a range of 4.5% to 4.75%.

Minutes from the Federal Reserve's February meeting showed that officials continued to anticipate further hikes are necessary to bring inflation down to their 2% target. The Minutes noted that "participants observed that a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2%, which was likely to take some time."

Several officials said that an "insufficiently restrictive" policy stance could stall recent progress on moderating inflation pressures, suggesting they are prepared to move rates up further.

The Minutes also noted that “almost all” officials agreed it was appropriate to raise interest rates by 25 basis points at the meeting, while “a few” favoured a bigger 50 basis-point hike.

Federal Reserve official, James Bullard, told CNBC the economy is proving more resilient than expected and predicts a peak in the Fed’s fund rate of 5.375% - he said "we've got a little ways to go."

Today’s key data and events:

AU Private Capital Expenditure Q4 prev -0.6% (11:30am)

US Chicago Fed Nat Act Index Jan (12:30am)

US GDP Q4 (12:30am)

US Kansas City Fed Index Feb (3am)

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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