

Morning Report

Friday, 3 March 2023



| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | | |
|-------------------------------|----------|--------|---|------|-------------|----------------------|---------|---------------------------------|-------------------------------|------|-------|
| S&P/ASX 200 | 7,255 | 0.1% | | | Last | Overnight Chg | | Australia | | | |
| US Dow Jones | 33,004 | 1.0% | 10 yr bond | | 3.93 | 0.06 | | 90 day BBSW | 3.62 | 0.03 | |
| Japan Nikkei | 27,499 | -0.1% | 3 yr bond | | 3.64 | 0.06 | | 2 year bond | 3.63 | 0.06 | |
| China Shanghai | 3,470 | -0.1% | 3 mth bill rate | | 3.71 | -0.01 | | 3 year bond | 3.63 | 0.06 | |
| German DAX | 15,328 | 0.1% | SPI 200 | | 7,230.0 | 28 | | 3 year swap | 4.09 | 0.00 | |
| UK FTSE100 | 7,944 | 0.4% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 3.93 | 0.07 | |
| Commodities (close & change)* | | | TWI | | 61.6 | - | - | 61.6 | United States | | |
| CRB Index | 271.3 | -1.5 | AUD/USD | | 0.6755 | 0.6766 | 0.6707 | 0.6732 | 3-month T Bill | 4.72 | -0.01 |
| Gold | 1,835.87 | -0.9 | AUD/JPY | | 91.99 | 92.17 | 91.78 | 92.02 | 2 year bond | 4.89 | 0.01 |
| Copper | 8,942.60 | -153.9 | AUD/GBP | | 0.5620 | 0.5640 | 0.5607 | 0.5633 | 10 year bond | 4.06 | 0.06 |
| Oil (WTI futures) | 77.89 | 0.2 | AUD/NZD | | 1.0806 | 1.0834 | 1.0800 | 1.0821 | Other (10 year yields) | | |
| Coal (thermal) | 198.00 | 1.3 | AUD/EUR | | 0.6334 | 0.6355 | 0.6320 | 0.6352 | Germany | 2.75 | 0.04 |
| Coal (coking) | 361.50 | 2.0 | AUD/CNH | | 4.6457 | 4.6643 | 4.6426 | 4.6598 | Japan | 0.51 | 0.00 |
| Iron Ore | 126.30 | -0.1 | USD Index | | 104.42 | 105.18 | 104.38 | 104.95 | UK | 3.88 | 0.04 |

Data as at 9:00 am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Bond yields and the US dollar rose on the back of an upward revision to US labour costs – this pointed to rates being high for longer. Equities recovered early losses to finish higher for the day.

Share Markets: US share markets rebounded as investors focussed on Fed member Bostic's pause comments. The S&P 500 lifted 0.8%, Dow 1.1% and Nasdaq 0.7%.

Interest Rates: Bond yields were higher. The policy sensitive 2-year US bond yield edged higher by 1 basis point, to 4.89%. The 10-year bond yield increased by 6 basis point, to 4.06%.

Interest-rate markets are pricing the Federal funds rate to be 30 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 5.45% in the back half of 2023.

Australian government bond yields (futures) were higher. The 3-year Australian government bond yield (futures) increased by 6 basis points, to 3.64%. The 10-year government bond yield (futures) increased by 6 basis points to 3.93%.

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 4.2% in late 2023.

Currencies: The US dollar strengthened against a

basket of major currencies, supported by the increase in yields. The DXY index rose from a low of 104.39 to a high of 105.18, before consolidating around 104.98. The Aussie dollar was weaker on the back of a USD strength, consolidating its recent slump. The AUD/USD pair traded from a high of 0.6766 to a low of 0.6707 and is currently trading around 0.6730.

Commodities: Commodities were mixed. Copper, gold and iron ore were down. Energy commodities, including oil and thermal coal were higher. The West Texas Intermediate (WTI) edged higher to be sitting around USD77 per barrel.

Australia: Private-sector approvals have slumped to their lowest level since July 2012. In comparison to the peak in March 2021, private-sector approvals have fallen by almost 50%. The number of both house (-13.8%) and multi-density approvals (-40.8%) declined over the month of January.

Approvals for houses declined across all states and territories, while multi-density approvals increased in the mining states of Queensland and Western Australia.

The rate of new private sector dwelling approvals has been falling steadily. Elevated material and labour costs in the construction sector have combined with rising interest rates to reduce demand for new housing.

The weakness is likely to persist for some time,

putting further upward pressure on rents as booming demand from high migration pushes up against inelastic supply. We have previously argued that higher interest rates will delay the supply side response compared to other periods where we have experienced strong population growth.

We are seeing this play out. Just yesterday, ABS data showed that average rents across Australia increased by almost 5% in the year to January 2023. Newly advertised capital-city rents increased by 11.6% in annual terms to the end of February 2023 – the highest on record (since the early 2000s). Eventually, higher rents will entice investors to return to the market. We expect this to happen towards the end of 2023 in some pockets, only after further rent hikes.

Europe: The unemployment rate in the euro area stayed steady at 6.7% in February. The core inflation rate accelerated to 5.6% in February, from 5.3% in January.

United States: Federal Reserve officials reinforced their higher for longer warnings. Christopher Waller said he'd favour hiking more than his current outlook if data continue to come in hot. Raphael Bostic still prefers a 25-basis-point rate hike this month but is open to lifting borrowing costs more than the 5%-5.25% range if need be.

Unit labour costs (measures wages adjusted for productivity) in the December quarter 2022 were revised higher to 3.2% from an initial reading of 1.1%. This outcome is impacted by productivity estimates which tend to be volatile on a quarterly basis.

Today's key data and events:

AU Housing Finance Jan exp -4% prev -4.3% (11:30am)
CH Caixin PMI Composite Feb prev 51.1 (12:45pm)
CH Caixin PMI Services Feb exp 54.5 prev 52.9 (12:45pm)
EZ PPI Jan exp -0.4% prev 1.1% (9pm)
US ISM Services Index Feb exp 54.5 prev 55.2 (2am)

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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