Morning report

Monday, 27 March 2023

Equities (close & % change)		
S&P/ASX 200	6,955	-0.2%
US Dow Jones	32,238	0.4%
Japan Nikkei	27,385	-0.1%
China Shanghai	3,423	-0.6%
German DAX	14,957	-1.7%
UK FTSE100	7,405	-1.3%
Commodities (close & change)*		
CRB Index	258.5	0.7
Gold	1,978.21	-15.2
Copper	8,921.75	-116.3
Oil (WTI futures)	69.26	-0.7
Coal (thermal)	193.35	10.3
Coal (coking)	354.00	-1.3
Iron Ore	118.50	-1.2

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	3.23		0.02	
3 yr bond	2.80		-0.01	
3 mth bill rate	3.55		0.00	
SPI 200	6,980.0		-3	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	60.4	-	-	60.4
AUD/USD	0.6684	0.6694	0.6625	0.6653
AUD/JPY	87.47	87.52	86.06	86.89
AUD/GBP	0.5439	0.5451	0.5427	0.5439
AUD/NZD	1.0695	1.0737	1.0682	1.0732
AUD/EUR	0.6172	0.6196	0.6153	0.6175
AUD/CNH	4.5650	4.5856	4.5533	4.5698
USD Index	102.60	103.36	102.50	103.12

Interest rates (close & change)		
Australia		
90 day BBSW	3.70	0.00
2 year bond	2.87	-0.06
3 year bond	2.85	-0.06
3 year swap	3.31	0.00
10 year bond	3.22	-0.07
United States		
3-month T Bill	4.50	-0.03
2 year bond	3.77	-0.07
10 year bond	3.38	-0.05
Other (10 year yields)		
Germany	2.13	-0.07
Japan	0.32	-0.01
UK	3.28	-0.08

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: Risk sentiment was negatively impacted by continued concerns surrounding the banking sector in Europe, with slides in the stock prices of UBS and Deutsche Bank driving initial concerns. However, stronger-than-expected business activity data later contributed to a settling of key issues, and a stabilisation of risk sentiment towards the end of the day.

US equity markets ended higher while European markets closed down. Bond yields declined but recovered from sharper falls earlier in the day. The US dollar strengthened against a basket of major currencies.

Global Banking Developments: Banking stocks slumped at the beginning of the trading day, triggered by a plunge in the shares of Deutsche Bank. Credit default swaps, which measure the cost of insuring against the bank defaulting on its debt obligations, spiked. The move was partially reversed over the trading day as German officials sought to back the strength of the lender.

Janet Yellen, US Treasury Secretary, convened a meeting of the Financial Stability Oversight Council to discuss the latest market developments. After the meeting, regulators stressed that the overall financial system is sound, despite some banks coming under stress.

Neel Kashkari, President of the Federal Reserve Bank of Minneapolis, suggested that the recent banking turmoil has increased the risks of a US recession. He noted that "it definitely brings us closer" to a contraction.

The Swiss banking regulator may investigate and take disciplinary action against Credit Suisse regarding how management ran the bank in the lead up to its collapse. It was reported that Swiss officials had to step in when they did as the bank likely wouldn't have survived another day.

Share Markets: US share markets reversed early losses to close higher on the day, after stronger-than-expected economic activity data outweighed earlier banking sector concerns.

The S&P 500 closed up 0.6%, the Nasdaq was 0.3% higher, and the Dow Jones increased 0.4%.

European indices had earlier closed much weaker, with the Euro Stoxx 50 down 1.8%.

The ASX 200 fell 0.2% on Friday. Futures are currently pointing to a positive open this morning.

Interest Rates: US bond yields declined on the day, however, partially reversed much steeper losses earlier in the session. The US 2-year treasury yield fell 7 basis points, to 3.77%, after earlier trading as low as 3.55%. The 10-year yield declined by a small 5 basis points, to 3.38.

Interest-rate markets are pricing in only around a 25% chance of a hike at the Fed's May meeting and are pricing in cuts from the middle of 2023, with around 100 basis points of cuts currently priced to the end of the year.

The 3-year Australian government bond yield (futures) fell by 1 basis point, to 2.80%. The 10-year government bond yield (futures) rose by 2 basis points to 3.23%.

Interest-rate markets are pricing in a pause at the upcoming April RBA meeting and are currently pricing in around 40 basis points of cuts over the back half of 2023.

Foreign Exchange: The US dollar rose against a basket of major currencies. The USD Index increase from a low of 102.50 to a high of 103.36, before settling at 103.12.

The AUD/USD pair was weaker on the day after falling from a high of 0.6694 to a low of 0.6625, before recovering to close at 0.6653.

Commodities: Gold, copper, iron ore, and oil were all weaker on the day. Thermal coal bucked the trend and rose.

Australia: There were no major data releases on Friday.

Eurozone: Economic activity surprised to the upside, beating expectations, and rising to a 10-month high as it moved further into expansionary territory. The composite purchasing managers' index (PMI) – a combination of the services and manufacturing indices, lifted to 54.1 in March. This was up from 52.0 in February and above expectations for an unchanged outcome. Activity has now been in expansionary territory (i.e. above 50) for three consecutive months.

The outcome reflected a rise in the services PMI – up to 55.6 in March, from 52.7 in February. This was above expectations of 52.5. Services activity has also been in expansionary territory for three consecutive months. Conversely, manufacturing activity slowed and came in below expectations, as demand continued to fall, partly offset by a remaining backlog of orders. The manufacturing PMI declined to 47.1 in March. This was down from the 48.5 outcome in February and below expectations of 49.0.

Japan: Growth in prices slowed for the first time in over a year, impacted by government energy subsidies. The pace of inflation declined to 3.3% over the year to February, down from the annual pace of 4.3% in January. The outcome was in line with consensus expectations. However, the government energy subsidies masked strong underlying growth in prices. In fact, without the subsidies, prices would have risen by 4.4%.

Looking further into the detail, the core consumer price index (CPI), excluding the volatile items of food and energy, rose by 3.5% over the year to February – its fastest pace in over four decades. This was an acceleration from the 3.2% annual pace in January and was above consensus expectations of 3.4%.

United Kingdom: A sharp dichotomy between what consumers say and what consumers do was evident in the most recent months, as retail spending rose by more than expected, while consumer confidence remained in the doldrums.

Retail sales volumes including automotive fuel unexpectedly rose by 1.2% in February. The outcome was above expectations for a small gain of 0.2%. The outcome in January was also revised higher, to 0.9% from an initial reading of 0.5%, suggesting that there is more strength in retail spending than previously thought. The outcome increases the chances that the region may escape a technical recession in the first half of 2023. However, conditions remain very challenging and spending is expected to continue to be impacted by higher interest rates, price pressures, and falling real incomes. The outcome was also strong when stripping out the impact of fuel. Excluding fuel, retail sales jumped by 1.5% in February. This was up from the 0.9% outcome in January (revised up from 0.4%) and above expectations of 0.2%.

On the other hand, consumer confidence remained very weak in March. Confidence was in line with expectations at -36 for the month. This was a slight improvement from the -38 in the prior month but remained deeply entrenched in negative territory. The sub-indices remained deeply entrenched in negative territory, including views on the economic and personal finances outlook for the next 12 months.

Economic activity remained in expansionary territory in March, but activity indicators were not as strong as expected. Services activity, as measured by the services PMI, fell to 52.8 in March. This was down from the 53.5 reading in February and slightly below expectations of 53.0. However, services activity has now been in positive territory for two consecutive months.

Manufacturing activity remained week and extended its run of contractionary reading (i.e. below 50) to eight consecutive months. The manufacturing PMI came in at 48.0 in March, down from the 49.3 February reading and below expectations of 49.7.

United States: Activity indicators came in stronger than expected across both the services and manufacturing sectors and overall business activity accelerated to the fastest pace in 10 months. However, manufacturing activity remained in contractionary territory.

The composite PMI, a combination of services and manufacturing, rose to 53.3 in March, above expectations of 49.5 and up from the previous month of 50.1.

The detail showed an acceleration of activity in the services sector, which rose to 53.8 in March, from 50.6 in February. Services activity was above expectations of 50.3 and was in positive territory for the second consecutive month. The solid demand for services allowed business to pass on price increase, as the measure of prices charged by services providers rose to its highest level in five months.

Meanwhile, manufacturing activity also surprised to the upside, but remained in contractionary territory. The manufacturing PMI came in at 49.3 in March, up from 47.3 in the prior month and above expectations of 47.0.

Orders for durable goods fell 1.0% in February, implying a weaker outcome for capital expenditure. This was below expectations of a 0.2% gain and followed a 5.0% fall in January (which was revised down from an initial reading of -4.5%. However, excluding transport, durable goods orders were flat in the month.

Today's key data and events:

CN Industrial Profits Feb y/y prev -4.0% (12:30pm)

EZ IFO Business Climate Survey Mar exp 91.0 prev 91.1 (7pm)

EZ M3 Money Ssupply Feb exp 3.2% prev 3.5% (7pm)

US Dallas Fed Index Mar exp -10.0 prev -13.5 (1:30am)

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.

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