Morning report

Thursday, 30 March 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,050	0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,718	1.0%	10 yr bond	3.33		0.05		90 day BBSW	3.70	0.01
Japan Nikkei	27,884	1.3%	3 yr bond	2.91		0.04		2 year bond	2.92	0.00
China Shanghai	3,396	-0.2%	3 mth bill rate	3.63		0.04		3 year bond	2.91	0.00
German DAX	15,329	1.2%	SPI 200	7,119.0		48		3 year swap	3.43	0.01
UK FTSE100	7,564	1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.28	-0.02
Commodities (close & change)*			TWI	60.2	-	-	60.2	**United States**		
CRB Index	262.7	-0.8	AUD/USD	0.6709	0.6713	0.6662	0.6684	3-month T Bill	4.61	0.03
Gold	1,964.70	-8.8	AUD/JPY	87.81	88.84	87.70	88.81	2 year bond	4.10	0.02
Copper	9,005.75	29.5	AUD/GBP	0.5436	0.5441	0.5403	0.5429	10 year bond	3.56	-0.01
Oil (WTI futures)	72.97	-0.2	AUD/NZD	1.0729	1.0757	1.0686	1.0739	**Other (10 year yields)**		
Coal (thermal)	192.75	0.8	AUD/EUR	0.6186	0.6189	0.6145	0.6163	Germany	2.33	0.04
Coal (coking)	345.33	-5.0	AUD/CNH	4.6134	4.6172	4.5912	4.6088	Japan	0.32	-0.03
Iron Ore	123.30	0.5	USD Index	102.43	102.79	102.37	102.65	UK	3.47	0.02

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: Investor fears surrounding the global financial system appeared to calm further. The indexes of major global share markets rose and shorter-dated bond yields were higher.

Share Markets: US share markets advanced as risk appetite continued to recover from banking turmoil, with investors turning their focus to Fed inflation data. The Dow rose 1.0%, the S&P increased 1.4% and the Nasdaq lifted 1.8%.

Interest Rates: The generic US 2-year treasury yield bounced from 4.00% to 4.13% and closed 2 basis points higher at 4.10%. Meanwhile, the US 10-year yield bounced from 3.53% to 3.61% before closed 1 basis point lower at 3.56%. Markets are pricing the Fed rate to be around 13 basis points higher at the next meeting on 3 May.

Markets currently price the Reserve Bank cash rate to be unchanged at the next meeting on 4 April, but a 21% chance of a hike in May. A cash rate of 3.32% is priced in by the market by year's end – that is, a rate cut of 25 basis points is fully priced.

Foreign Exchange: The AUD/USD was trading at 0.6713 ahead of yesterday's inflation data. It sold off in the wake of the weaker-than-expected inflation result; the monthly gauge of inflation has stepped down sharply from 8.4% annual growth in December to 6.8% in February and is set to soften further. The sell off in the AUD took the AUD/USD to a low of 0.6662 yesterday. It is trading modestly above this low at the time of writing. Whilst the AUD/USD continues to show considerable volatility, it has remained stuck in a trading range of 0.6565-6785 since late February. The Reserve Bank's decision next week on Tuesday threatens to take it out of its range.

Commodities: Gold and oil prices fell.

Australia: The monthly consumer price index (CPI) indicator rose 6.8% over the year to February, well below consensus expectations for a 7.2% gain. The measure has now fallen 1.6 percentage points since December, suggesting disinflation is beginning to take effect.

Housing (+9.9), food and non-alcoholic beverages (+8.0%) and transport (+5.6%) continue to be the largest contributors to elevated inflation. However, we are starting to see progress being made in these categories.

Prices for holiday travel and accommodation have eased rapidly over the first two months of 2023. This follows large spikes into the end of 2022, as people took to the skies at any price. This category accounted for much of the upside surprise that spooked the RBA in the December quarter inflation report.

Government policies remain a prominent theme in the inflation story. Prices for new dwelling construction and electricity are coming off the boil as HomeBuilder continues to unwind and energy market intervention releases the pressure valve. Automotive fuel prices have also normalised after ructions from the reintroduction of the full rate of the fuel excise.

Based on the January and February monthly readings, the Group view is quarterly inflation will slow 1.3%, but the risks are that it will be only a rise of 1.0%. If this comes to fruition, it would be the softest quarterly rise in inflation since late 2021.

The monthly inflation indicator continues to support the view that inflation peaked in the December quarter and points to positive progress on reigning in price pressures. This adds to the weight of evidence suggesting the RBA is likely to pause its rate hike cycle next week.

United States: The US Federal Deposit Insurance Corporation is facing almost $23 billion in costs from recent bank failures and considering steering a larger-than-usual portion of that burden to the nation's biggest banks, people familiar said.

Pending home sales grew 0.8% in February, representing the third consecutive month of growth. After nearly a year, the housing sector's contraction seems to be nearing an end. Year-over-year, pending transactions dropped by 21.1%.

Today's key data and events:

AU Building Permits Feb -1.5% (8:45am)

AU Job Vacancies Feb prev -4.9% (11:30am)

EZ Confidence Indicators Mar (8pm)

US Initial Jobless Claims Mar 25 exp 195k prev 191k (11:30pm)

US GDP Q4 T Annualised exp 2.7% prev 2.7% (11:30pm)

US Core PCE Q4 exp 4.3% prev 4.3% (11:30pm)

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.

Besa Deda, Chief Economist
Ph: +61 404 844 817

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
+61 401 102 789