

Thursday, 27 April 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,316	-0.1%			Last	Overnight Chg		Australia			
US Dow Jones	33,302	-0.7%	10 yr bond		3.34	0.03		90 day BBSW	3.68	-0.01	
Japan Nikkei	28,416	-0.7%	3 yr bond		2.95	0.03		2 year bond	2.98	-0.17	
China Shanghai	3,421	0.0%	3 mth bill rate		3.64	0.02		3 year bond	2.95	-0.18	
German DAX	15,796	-0.5%	SPI 200		7,311.0	-16		3 year swap	3.40	0.01	
UK FTSE100	7,853	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.30	-0.14	
Commodities (close & change)*			TWI		59.8	-	-	59.8	United States		
CRB Index	264.9	-3.8	AUD/USD		0.6628	0.6639	0.6591	0.6604	3-month T Bill	4.98	0.07
Gold	1,989.04	-8.3	AUD/JPY		88.63	88.76	87.87	88.26	2 year bond	3.95	0.00
Copper	8,551.75	27.8	AUD/GBP		0.5341	0.5347	0.5282	0.5297	10 year bond	3.45	0.05
Oil (WTI futures)	74.30	-2.8	AUD/NZD		1.0793	1.0800	1.0764	1.0797	Other (10 year yields)		
Coal (thermal)	193.00	1.3	AUD/EUR		0.6040	0.6048	0.5959	0.5981	Germany	2.40	0.01
Coal (coking)	237.67	-8.0	AUD/CNH		4.6008	4.6074	4.5746	4.5824	Japan	0.47	-0.01
Iron Ore	105.05	-0.1	USD Index		101.82	101.89	101.01	101.44	UK	3.73	0.03

Data as at 8am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US banking sector concerns continued to dominate market sentiment. In Australia, yesterday's inflation report suggested the Reserve Bank may pause for longer. Australian bond and swap yields fell sharply in the wake of the report and the AUD/USD is down near 2-week lows.

Share Markets: US share markets had a second day of declines, as First Republic's woes renewed concerns about the health of regional lenders in the US. Positive tech earnings underpinned the Nasdaq (up 0.5%) even as the S&P 500 lost ground (down 0.4%).

Microsoft's \$69 billion Activision takeover was vetoed by the UK antitrust watchdog, which said the deal would harm competition in the cloud. Microsoft plans to appeal.

Interest Rates: The US 2-year yield finished the overnight session unchanged at 3.95% while the US 10-year yield rose 5 basis points to 3.45%.

The yields on Australian generic government bonds dropped sharply after yesterday's inflation report. The Australian 2-year yield dropped 15 basis points to 3.30% and the 10-year yield plunged 17 basis points to 2.98%.

Australian interest-rate markets are currently pricing in little chance of further rate hikes from the Reserve Bank. Markets see the peak as 3.66%, that is, that the rate-hike cycle is over.

Foreign Exchange: The prospect that the Reserve

Bank's pause will continue pushed the Australian dollar low – it fell from 0.6640 to a near 2-week low of 0.6591 overnight. It could fall further towards 0.6565 in the short term where near term support sits. The AUD/USD is also under pressure because the Fed is likely to hike again next month, which means the interest-rate differential with the US will move further in the US's favour.

Commodities: Oil prices fell overnight, but it was a volatile trading session. Oil prices were whipsawed by volatile equity markets, and erased gains that came after OPEC and its allies announced a shock production cut. Oil also largely ignored a bullish inventory report from the Energy Information Agency (EIA) in the US.

Australia: The March quarter inflation report confirmed that inflation passed a peak in the December quarter of 2022. The consumer price index (CPI) rose 7.0% over the year to the March quarter, slowing from a near 33-year high of 7.8% in the December quarter.

The outcome represents welcomed progress. However, it also demonstrates just how much work is left to do. If the CPI rose at March's quarterly pace of 1.4% for a full year, it would result in an annual inflation rate of 5.3%, still well above the RBA's mandated target of 2-3%.

Over the quarter, services prices rose 1.7%, to be 6.1% higher in annual terms. This is the fastest

annual pace of services inflation in almost 22 years! This is an important area to watch as services tend to be much 'sticker' and more difficult to get down.

Housing remained the biggest driver of inflation in the March quarter. However, a rotation between the housing sub-categories accelerated as cost pressures subside for new dwelling purchases, while rents are storming higher at an accelerating pace.

Recent RBA communication has emphasised their implied path of getting inflation down to the top of the 2-3% band by mid-2025. Yesterday's data suggests that they are on this path. The risk is that the RBA continues to pause and continues to assess the data.

United States: Durable goods orders rose 3.2% in March, beating consensus expectations for a rise of just 0.7%. However, the core non-defence and ex air component fell 0.4% in the month – this is the measure that better aligns with business investment.

First Republic plunged again, hitting an all-time low. US bank regulators are weighing the prospect of downgrading their private assessments of the lender, which may curb its access to Fed lending. News reports also suggest that advisers have lined up potential buyers of new stock as part of a rescue plan.

Today's key data and events:

AU Export and Import Price Indexes Q1 (11:30am)

EZ Confidence Indicators Apr (7pm)

US GDP Q1 A exp 1.9% prev 2.6% (10:30pm)

US Pending Home Sales Mar exp 0.8% prev 0.8% (12am)

US Kansas City Fed Mfg Index Apr exp -2 prev 0 (1am)

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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