

Morning Report

Wednesday, 12 April 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,310	1.3%			Last	Overnight Chg		Australia			
US Dow Jones	33,685	0.3%	10 yr bond		3.24	0.02		90 day BBSW	3.65	0.01	
Japan Nikkei	27,923	1.0%	3 yr bond		2.86	0.02		2 year bond	2.89	0.06	
China Shanghai	3,473	-0.1%	3 mth bill rate		3.60	0.01		3 year bond	2.88	0.06	
German DAX	15,655	0.4%	SPI 200		7,357.0	25		3 year swap	3.30	-0.02	
UK FTSE100	7,786	0.6%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	3.22	0.04
Commodities (close & change)*			TWI		60.2	-	-	60.2	United States		
CRB Index	274.7	3.0	AUD/USD		0.6641	0.6680	0.6640	0.6653	3-month T Bill	4.79	-0.04
Gold	2,003.62	0.0	AUD/JPY		88.71	89.13	88.53	88.94	2 year bond	4.02	0.01
Copper	8,854.50	50.8	AUD/GBP		0.5363	0.5381	0.5347	0.5354	10 year bond	3.43	0.01
Oil (WTI futures)	81.53	1.8	AUD/NZD		1.0674	1.0757	1.0670	1.0744	Other (10 year yields)		
Coal (thermal)	208.15	closed	AUD/EUR		0.6115	0.6135	0.6093	0.6098	Germany	2.31	0.13
Coal (coking)	289.00	closed	AUD/CNH		4.5771	4.6032	4.5767	4.5873	Japan	0.46	-0.01
Iron Ore	118.75	-1.0	USD Index		102.49	102.52	102.01	102.16	UK	3.54	0.11

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 share market indexes ended mixed and US bond yields moved just a tad higher ahead of key US inflation data tonight in the US.

Share Markets: US share markets ended mixed ahead of tonight's key US inflation data. The major bourse, S&P 500, ended flat. The Dow rose 0.3% whilst the Nasdaq underperformed, closing 0.4% weaker.

Interest Rates: US bond yields finished a tad higher overnight with the 2-year yield and 10-year yield each up 1 basis point. Interest-rate markets have a probability of 71% attached to another Fed rate hike of 25 basis points next month.

Foreign Exchange: The US dollar index was under selling pressures overnight – falling from 102.50 to 102.00, which takes the USD back to where it started the European trading session on Monday night. Against this backdrop, the AUD/USD recovered from 0.6620 towards 0.6680. The near term direction in the USD and AUD will be highly influenced by the release of US inflation data tonight.

In other currency news, investors cut bets on a weaker Japanese yen amid expectations the Bank of Japan (BOJ) will inevitably normalise policy, even after Governor Kazuo Ueda recently hinted that any significant policy tweak is unlikely for the moment. Bloomberg data indicated that investors trimmed long euro-yen positions to the lowest since June

2021 and on the pound to the lowest since 2020.

Commodities: Oil advanced whilst gold was unchanged.

Australia: The monthly business survey for March was published yesterday. Business conditions remained elevated in March (+16 index points), despite slipping for a second consecutive month (-2 index points). Conditions remain well-above the 10-year average of 8.7. It suggests that momentum in the economy, while slowing, remains robust.

Business confidence rose 3 index points, to -1. This improvement reflected a partial rebound from the large February drop. The survey was undertaken between 21 and 31 March, prior to the Reserve Bank (RBA) pausing rate hikes in April. However, talk of a pause was widespread ahead of the meeting, which may have buoyed confidence, in addition to continued robust conditions.

Trading conditions improved, while profitability and employment conditions slipped. Forward orders, a leading indicator, rose and remained above average. Capacity utilisation held well-above average, suggesting that businesses are continuing to see robust demand.

Quarterly cost growth declined materially. Labour costs slowed to 1.9% in March, from the 2.5% and 2.6% pace in the prior two months. Purchase costs also dropped sharply, to 1.8%, from 3.0% – suggesting that supply-side pressures have eased

markedly.

In a separate release, consumer sentiment jumped 9.4% in April following the RBA pausing interest rate hikes. This was the strongest monthly gain since October 2020.

Confidence among all housing tenure types increased, but those with a mortgage breathed the biggest sigh of relief (+12.2%).

All five sub-indices moved higher; this also happened in January, when the RBA had its de facto pause given it doesn't meet that month. Prior to this, the last time all five sub-indices rose was March 2021.

Housing is the most interest-rate sensitive part of the economy, making it somewhat unsurprising that housing-related measures surged. The time to buy a dwelling index jumped 8.2% to 71.1 – its largest monthly gain since November 2021. House price expectations also shifted higher, to 130.3 index points – a 16.6% increase in the month.

Despite the lift in April, sentiment remains deeply entrenched in pessimistic territory. While the lows of the cycle may now be behind us, it will likely take some time before sentiment lifts materially.

China: The consumer price index (CPI) rose 0.7% year-on-year, the slowest pace in 18 months and weaker than the 1.0% gain in February. The result fell short of the 1.0% rise expected by consensus.

The producer price index (PPI) fell 2.5% year-on-year, the fastest pace since June 2020 and compared with a 1.4% drop in February. The PPI has fallen for six straight months.

The prices data suggests there's a building case for China's policymakers to take more steps to support the uneven economic recovery.

Eurozone: The volume of retail sales in the euro area economy fell by 0.8% in February, compared to a revised increase of 0.8% in January. On an annual basis, retail sales declined by 3.0% in the same month. The decline indicates that household spending is still facing pressure from high inflation and rising interest rates.

United States: Fed member John Williams said one more hike followed by a pause is a "reasonable starting place".

The US Treasury Secretary Janet Yellen said she doesn't believe the banking turmoil has restricted the availability of credit in the US. She also added she is not anticipating a downturn in the economy, but acknowledged it remains a risk."

The NFIB's small business optimism index decreased

0.8 points in March to 90.1, marking the 15th consecutive month below the long-run average of 98. In the survey, 24% of owners reported inflation as their single most important business problem, down four points from last month. Small business owners expecting better business conditions over the next six months remain at a net negative 47%.

Today's key data and events:

NZ Card Spending Mar prev -1.7% (8:45am)
 US Consumer Price Index (CPI) Mar (10:30pm)
 Headline m/m exp 0.2% prev 0.4%
 Headline y/y exp 5.1% prev 6.0%
 Core ex Food and Energy m/m exp 0.4% prev 0.5%
 Core Ex Food and Energy y/y exp 5.6% prev 5.5%
 US FOMC Meeting Minutes for Mar 22 (4am)

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@stgeorge.com.au
+61 404 844 817

Senior Economist

Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+ 61 481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist

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

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