

Morning Report

Thursday, 9 February 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,530	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	33,949	-0.6%	10 yr bond	3.61				90 day BBSW	3.45	0.07
Japan Nikkei	27,606	-0.3%	3 yr bond	3.28				2 year bond	3.25	0.02
China Shanghai	3,388	-0.5%	3 mth bill rate	3.67				3 year bond	3.28	0.02
German DAX	15,412	0.6%	SPI 200	7,430.0				3 year swap	3.71	-0.03
UK FTSE100	7,885	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.61	0.02
Commodities (close & change)*			TWI	62.0	-	-	62.0	United States		
CRB Index	270.9	0.1	AUD/USD	0.6951	0.6996	0.6919	0.6924	3-month T Bill	4.56	0.01
Gold	1,875.28	2.2	AUD/JPY	91.12	91.55	90.92	90.99	2 year bond	4.43	-0.03
Copper	8,871.76	-30.7	AUD/GBP	0.5773	0.5789	0.5735	0.5737	10 year bond	3.62	-0.05
Oil (WTI futures)	78.43	1.3	AUD/NZD	1.0998	1.1031	1.0975	1.0979	Other (10 year yields)		
Coal (thermal)	239.35	-16.3	AUD/EUR	0.6481	0.6504	0.6456	0.6463	Germany	2.36	0.01
Coal (coking)	356.00	1.3	AUD/CNH	4.7154	4.7492	4.7021	4.7066	Japan	0.50	0.00
Iron Ore	121.10	-0.3	USD Index	103.38	103.52	103.00	103.48	UK	3.31	0.00

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A chorus of central bankers kept markets busy overnight in the absence of any major data. US Fed officials struck a hawkish tone, prompting a decline in risk sentiment. A sell-off in tech stocks weighed on major equity indices, while treasury yields, and the US dollar eked out gains.

Share Markets: Hawkish comments from Fed officials triggered a sell-off in equities. Tech names led the declines, the NASDAQ falling 1.7%, while the S&P 500 and the Dow Jones closed down 1.1% and 0.6%, respectively. Equities remain vulnerable to any shifts in interest rate expectations.

The ASX 200 gained 0.3% yesterday, led by materials, financial and energy companies. Futures are pointing to a soft open this morning.

Interest Rates: US Treasury yields moved higher as investors reassessed rate expectations following Fed commentary. The 2-year Treasury yield gained 3 basis points to 4.44%, while the 10-year yield climbed 4 basis points to 3.63%.

Interest rate markets are pricing a peak in the fed funds rate of around 5.1% in June this year. There are also bets for almost 50-basis points of rate cuts before the year's end.

The Australian 3-year government bond (futures) yield was unchanged at 3.28%, while the 10-year (futures) yield fell 1 basis point to 3.61%.

Interest rate markets are attaching a 71% probability to another 25-basis point hike from the

Reserve Bank (RBA) in March and see a peak in the cash rate of just under 4% in September.

Currencies: The Aussie dollar finished lower after testing the 0.6996 level earlier in the session. The AUD/USD pair then fell to a low of 0.6919 and is currently trading slightly above that level at 0.6924.

The USD dollar strengthened modestly against a basket of major currencies. The DXY index traded rallied from a low of 103.00 to a high of 103.52 and is currently trading just shy of this level at 103.48.

Commodities: The West Texas Intermediate (WTI) price of oil rose to US\$78.43 per barrel, its highest level in a week. Gold and coking coal also firmed, while iron ore and copper softened.

Australia: There were no major economic data releases yesterday.

Europe: European Central Bank (ECB) member, Klaas Knot, said that the Bank may have to extend its streak of 50-basis point hikes into May if core inflation doesn't ease by that time. Knot remarked that "Once we see a clear and decisive turn in underlying inflation dynamics, I expect us to move to smaller steps."

Japan: The current account surplus narrowed to ¥33.4bn in December from ¥1.8tr in November, falling short of expectations for a ¥112.0bn surplus.

United States: Fed Governor Christopher Waller said that the battle to get inflation back to target

“might be a long fight”, adding that monetary policy will need to be kept tighter for longer.

John Williams, President of the New York Fed branch, endorsed a peak in the Fed funds rate of 5.00%-5.25% as appropriate. However, Williams noted that if the labour market remains too tight or if financial conditions ease too much, the Fed will need to do more.

Governor, Lisa Cook, also commented on the tightness of the labour market but cautioned reacting to a single data release (referencing the January labour report). Cook maintained that inflation was too high, and that restrictive policy will need to be sustained for a prolonged period.

Minneapolis chief, Neel Kashkari, said he expects rates to peak above 5% this year and added that while the Fed doesn't want to cause a recession, “we have a job to do”.

**There are no significant data releases today.
Tomorrow's key data and events:**

NZ BusinessNZ Mfg PMI Jan prev 47.2 (8:30am)

AU RBA Statement on Monetary Policy (11:30am)

CH CPI Jan y/y exp 2.1% prev 1.8% (12:30pm)

CH PPI Jan y/y exp -0.5% prev -0.7% (12:30pm)

UK GDP Q4 exp 0.0% prev -0.3% (6pm)

US UoM Cons. Sent. Feb Prel exp 65.0 prev 64.9 (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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