WESTERN AUSTRALIAN TREASURY CORPORATION

Economic Analysis

Daily Report 17 March 2023

Intere	st Rates		FX			Commodities US\$		
Australia		$\Delta {f bp}$	AUD/USD	0.6657	0.5%	WTI Crude Oil	68.41	\$0.12
90-day Bill	3.69	2	AUD/JPY	88.74	1.0%	Brent Crude Oil	74.82	\$0.36
3-year Bond	3.02	18	AUD/EUR	0.6270	0.2%	Mogas95*	95.97	-\$3.20
10-year Bond	3.44	13	AUD/GBP	0.5498	0.2%	CRB Index	256.65	2.61
			AUD/NZD	1.0735	0.1%	Gold	1921.87	-\$0.67
			AUD/CNY	4.5910	0.4%	Silver	21.73	-\$0.12
US			EUR/USD	1.0614	0.3%	Iron Ore (62% Fe)**	129.15	-\$3.03
2-year Bond	4.19	30	USD/JPY	133.37	0.5%	Iron Ore (22-23 Average)	107.65	\$0.12
10-year Bond	3.58	12	USD/CNY	6.8965	-0.1%	Copper	8518.00	\$13.50
			RBA Policy			Equities		
			O/N Cash Rate Target (%) 3.		3.60	ASX200	6969	29
Other 10-year			Interbank O/N Cash Rate (%)		3.57	Dow Jones	32247	372
Japan	0.31	4	Probability of a 25bps rise in Apr		2.1%	S&P500	3960	68
Germany	2.26	14	RBA Bond Holdings (28 Feb)		A\$350.5b	Stoxx600	442	5
UK	3.39	7				CSI300	3939	-48

*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel price.

** Iron ore is the second SGX futures contract.

US stocks saw significant increases overnight, as the largest US lenders provided support to First Republic Bank which has been impacted by the crisis in confidence in US regional banks. Government bond yields bounced, but the US dollar weakened further. The Aussie dollar appreciated against all the major currencies.

The largest US banks agreed to deposit US\$30b with First Republic Bank, which has been particularly hard hit by the confidence crisis in the US regional banks and had seen its shares plummet 70% over the previous trading sessions. The support from the largest US banks to First Republic Bank is designed to restore confidence in the US regional banking sector and prevent contagion to the entire financial system.

On the other side of the Atlantic, Credit Suisse will receive CHF50b (A\$81b) in liquidity support from the Swiss National Bank, thus becoming the first major global bank to seek such a lifeline since 2008.

Despite the banking sector woes <u>spreading to Europe</u>, the ECB decided to increase its interest rates by another 50bps as expected. However, the ECB has also shifted their monetary policy forward guidance to "data dependent" and strived to distinguish the fight with inflation from financial stability objectives. In the monetary policy statement, the ECB top officials said that they are monitoring current market conditions and "stand ready" to react if needed.

Economic data releases continue to support the case for further monetary tightening in the US. Initial jobless claims unexpectedly declined 20k to 192k last week, while continued claims declined by 29k to the low 1,684k the previous week, suggesting the US labour market remains very tight. US import prices declined by another 0.1% in February, slightly less than the 0.2% envisaged by the consensus, though this was due to a rise in oil prices. Excluding oil, import price growth accelerated to 0.4% from 0.2% in the previous month.

The markets still expect a 25bps fed funds rate hike next week, though some traders see a case for a pause.

In Australia, <u>employment</u> rose by 64.6k in February, more than recovering from the December and January weakness and reaching a new record high. Hours worked also bounced back from the lower levels at the turn of the year to a fresh series record. The unemployment rate fell 0.2ppts back to a near-record low of 3.5%. These numbers would normally be an argument for the continuation of monetary policy tightening by the RBA, yet the recent developments in the global banking sector have strengthened the case for a pause in rate hikes.

In the local markets, Commonwealth bond yields picked up less than their US equivalents. The ASX 200 opened 0.3% higher this morning. The futures market is currently pricing in only a small chance of an RBA cash rate hike in April.

ECONOMIC DATA REVIEW

- AU: Employment (monthly change, Feb) Actual 64.6k, Expected 49.1k, Previous -10.9k (revised).
- AU: Unemployment Rate (Feb) Actual 3.5%, Expected 3.6%, Previous 3.7%.
- US: Initial Jobless Claims (w/e 11 Mar) Actual 192k, Expected 205k, Previous 212k (revised).
- US: Import Price Index (MoM, Feb) Actual -0.1%, Expected -0.2%, Previous -0.4% (revised).

ECONOMIC DATA PREVIEW

- US: Industrial Production (MoM, Feb) Expected 0.3%, Previous 0.0%.
- US: University of Michigan Consumer Confidence (Mar) Expected 3.6%, Previous 3.7%.

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