

THIS WEEK'S HIGHLIGHTS

- The collapse of the Silicon Valley Bank on Friday led to a spike in risk aversion and a re-assessment of the monetary policy outlook, both globally and in Australia. Despite these disruptions, the ECB increased its interest rates by 50bps, as expected, while the FOMC is still anticipated to hike the fed funds rate by 25bps next week.
- Data-wise, the headline rates of US CPI and PPI inflation continued to fall in February, but remained elevated. US retail sales declined in February, but core sales continued to rise. Chinese economic data suggested a further recovery from the zero-COVID policy in February.
- At home, employment surged to a fresh record high in February, while the unemployment rate fell back to 3.5%. NAB business conditions were still strong in February, but business confidence slipped. Westpac consumer sentiment remained depressed in March.

NEXT WEEK'S HIGHLIGHTS

- The most important event offshore will be the FOMC decision on Wednesday. The Bank of England will announce its monetary policy decision on Thursday.
- It will be a fairly quiet week data-wise, with US durable goods orders for February, as well as the flash March PMIs for the major advanced economies and Australia being the only releases of note; all those releases are on Friday.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.60 (0 pt)	O/N Interbank Cash	3.57 (0 pt)	USD 3-month	4.96 (↓19 pt)	ASX200	6985 (↓185 pt)
US (IOR)	4.65 (0 pt)	90-day Bills	3.69 (↑5 pt)	2-yr T-Notes	4.20 (↓60 pt)	S&P500	3960 (↑42 pt)
Eurozone (Deposit)	3.00 (↑50 pt)	3-yr T-Bond	3.03 (↓33 pt)	10-yr T-Notes	3.57 (↓29 pt)	DJIA	32247 (↓8 pt)
UK	4.00 (0 pt)	10-yr T-Bond	3.42 (↓21 pt)	Jap 10-yr	0.30 (↓19 pt)	Nikkei	27194 (↓1078 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.49 (↓23 pt)	UK 10-yr	3.39 (↓39 pt)	CSI300	3985 (↓2 pt)
China (1Y LPR)	3.65 (0 pt)	10-yr WATC Bond	4.13 (↓8 pt)	Ger 10-yr	2.28 (↓25 pt)	Stoxx600	442 (↓18 pt)

Changes are since the issue of last week's Market Watch.

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields fell sharply in what has been a volatile week. The collapse of the Silicon Valley Bank and further trouble at Credit Suisse raised concerns about the health of the global banking system, sparking flight-to-safety flows and a re-assessment of the monetary policy outlook.

The markets still expect a 25bps fed funds rate hike at the meeting next week. It is now anticipated to be the final move in this cycle, with cuts being priced in for the second half of the year.

RBA cash rate futures also saw a reassessment of expectations this week, with no cash rate changes now expected in the next few months and cuts priced in for later this year. However, labour market and business conditions data this week justify keeping monetary conditions tight. The Australian banks are well capitalised, limiting financial stability concerns.

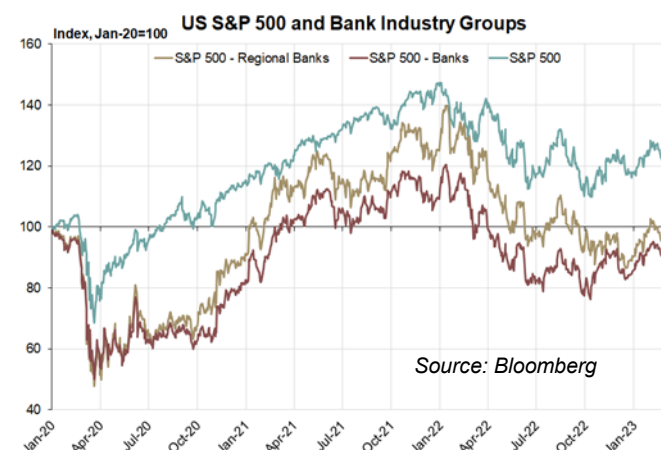
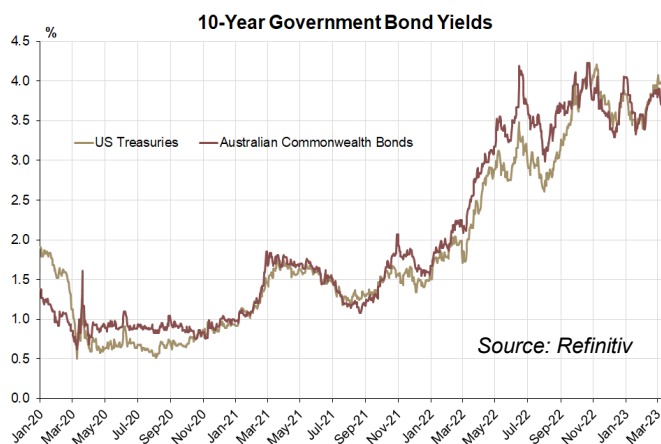
The ECB was the first central bank to actually make a decision after the banking troubles this week, increasing its interest rates by 50bps, but softening the tone on further hikes. The ECB is balancing its fight with inflation and financial stability concerns.

Equities

Equities found themselves under pressure from a rise in risk aversion after the collapse of the Silicon Valley Bank, but a broad sell-off has been averted.

The S&P 500 has even managed to gain this week, thanks to the decline in concerns over Fed tightening after fed funds rate expectations fell. Banks were the worst performing sector, with the regional bank index falling 17.3%.

The Aussie market was not spared this week and is currently tracking for a sixth consecutive weekly loss.



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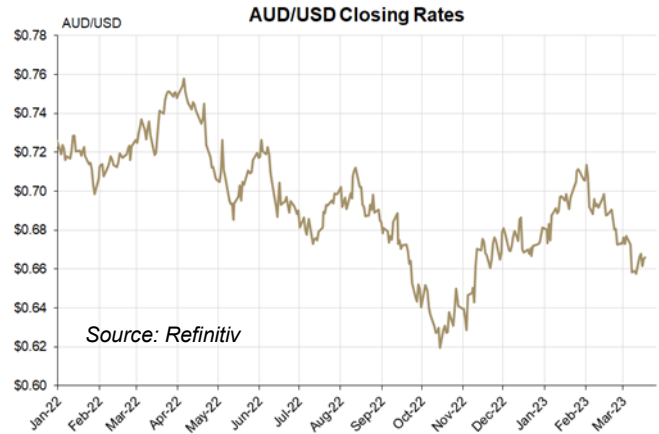
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Currencies

The Aussie dollar closed last Friday at a four-month low but has climbed sharply against the USD this week. The rise was driven by a sharp drop in the big dollar, as traders unwound their expectations for further Federal Reserve interest rate hikes and priced in cuts in response to news of trouble in the US banking sector.

The Aussie has also managed to make solid gains against the euro and Swiss franc, after trouble at Swiss banking giant Credit Suisse, raised concerns over the health of the European banking system. The Swiss National Bank threw a lifeline to Credit Suisse, while the ECB raised interest rates 50bps, but dialled back the rhetoric over future rate hikes.

The Japanese yen gained from safe haven flows, as Japanese investors brought their money home. The Aussie fell to its lowest level against the yen since December last year, before regaining some lost ground as some of the fear subsided.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6705	0.6716	0.6562	↑2	0.7661	0.6169
AUD/EUR		0.6301	0.6309	0.6163	↑1.5	0.7000	0.6163
AUD/GBP		0.5521	0.5582	0.5452	↑0.1	0.6260	0.5452
AUD/JPY		89.24	90.53	87.32	↓0.6	98.43	84.97
AUD/CNY		4.6130	4.6198	4.5363	↑0.7	4.8743	4.4365
EUR/USD		1.0637	1.0759	1.0514	↑0.4	1.1184	0.9534
GBP/USD		1.2142	1.2203	1.1830	↑1.9	1.3298	1.0382
USD/JPY		133.10	137.37	131.71	↓2.5	151.94	118.16
USD/CNY		6.8800	6.8800	6.8355	↓1.3	7.3270	6.3349

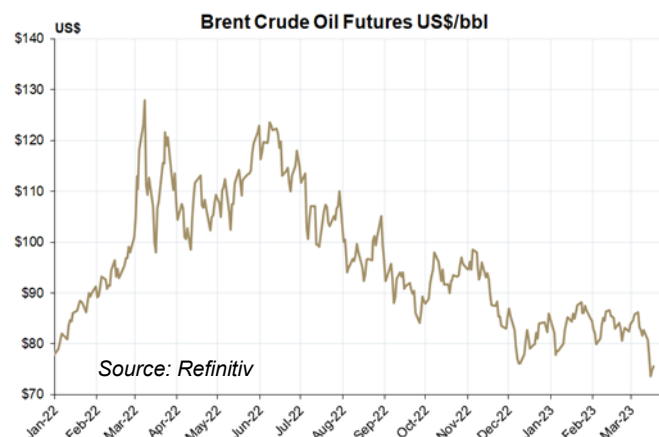
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6705	0.6727	0.6749	0.6777
AUD/EUR		0.6301	0.6288	0.6280	0.6259
AUD/GBP		0.5521	0.5528	0.5538	0.5551
AUD/JPY		89.24	88.35	87.50	85.66
AUD/NZD		1.0754	1.0793	1.0845	1.0940
AUD/SGD		0.9001	0.9001	0.8992	0.8967

Commodities

Oil prices slumped this week, falling to the lowest levels since December 2021. Concerns over an emerging banking crisis weighed further on the demand outlook, while the International Energy Agency said higher-than-expected Russian oil exports were pushing the market further into oversupply in the first half of 2023. News of a rise in oil inventories to the highest level in 18 months was further evidence of a market in surplus.

Gold priced jumped in the wake of the increase in financial market turmoil and the drop in the US dollar.

Iron ore futures prices hit a nine-month high on Wednesday before slipping back later in the week on news Chinese authorities are planning a further cut in steel production this year.



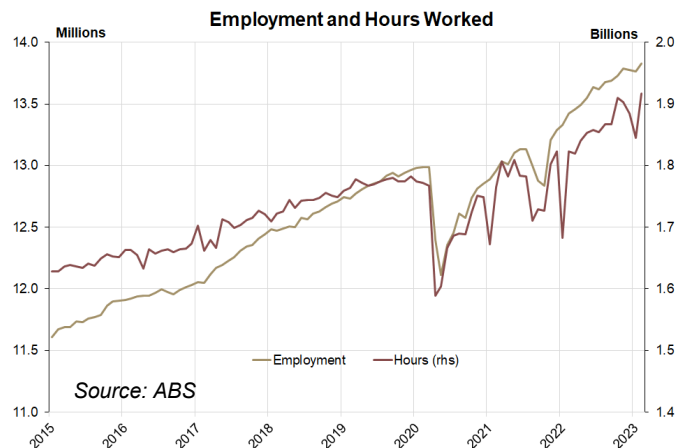
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,927.83	\$1,937.28	\$1,811.50	(↑\$99.12)	\$1,998.10	\$1,613.60
Brent Crude Oil (US\$)	\$75.61	\$83.48	\$71.67	(↓\$5.6)	\$125.28	\$71.67
Mogas95* (US\$)	\$95.97	\$103.20	\$95.97	(↓\$7.1)	\$161.20	\$82.60
WTI Oil (US\$)	\$69.20	\$77.47	\$65.65	(↓\$6.03)	\$123.68	\$65.65
CRB Index	256.65	264.99	254.03	(↓8.01)	329.59	254.03
Iron Ore Price 62% Fe (US\$) **	129.15	\$133.20	\$124.70	(↑\$1.54)	\$164.50	\$75.30

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

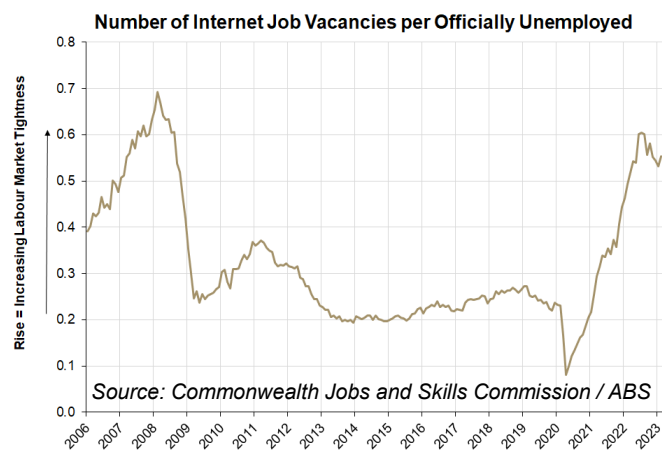
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

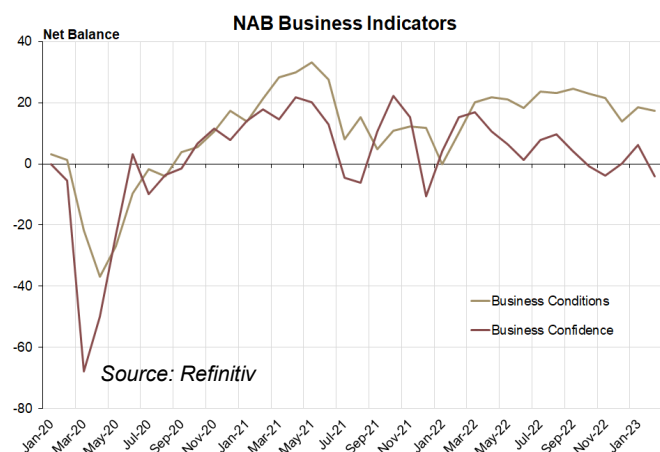
Employment and hours worked both rose to fresh record highs in February.



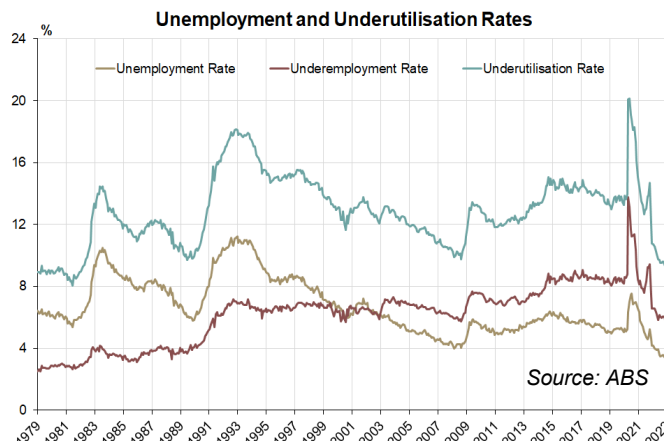
The labour market tightness is also confirmed by the high job vacancy to unemployed ratio.



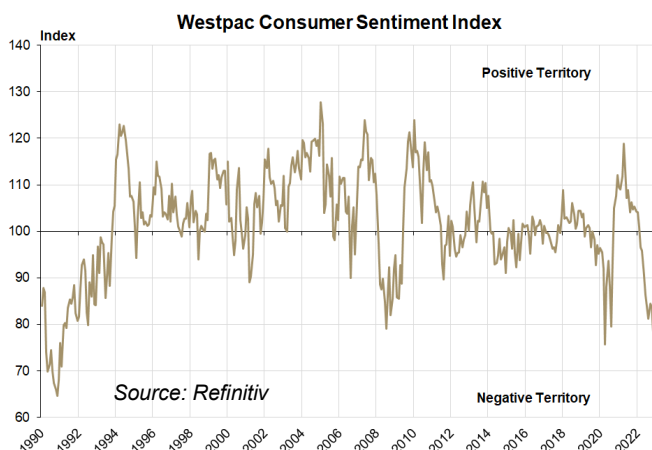
NAB business conditions remained strong in February, while business confidence slipped.



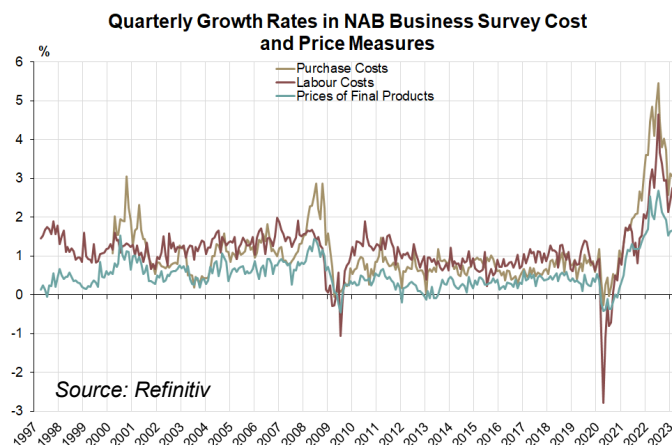
Low unemployment and underemployment rates point to limited spare capacity in the labour market.



Westpac consumer sentiment remains depressed, amid higher interest rates and ongoing elevated inflation.

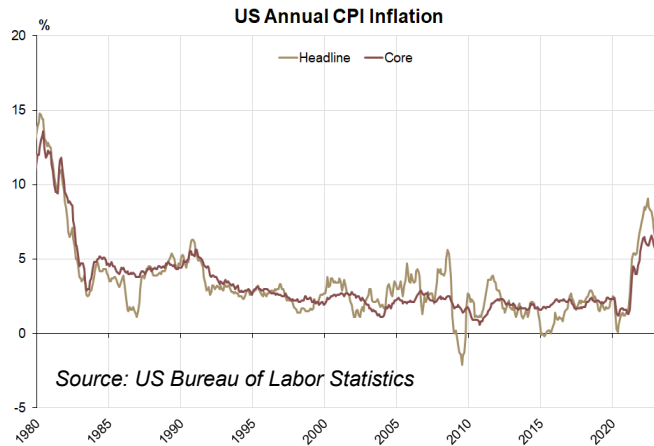


Business costs and retail prices continue to grow at a fast pace.

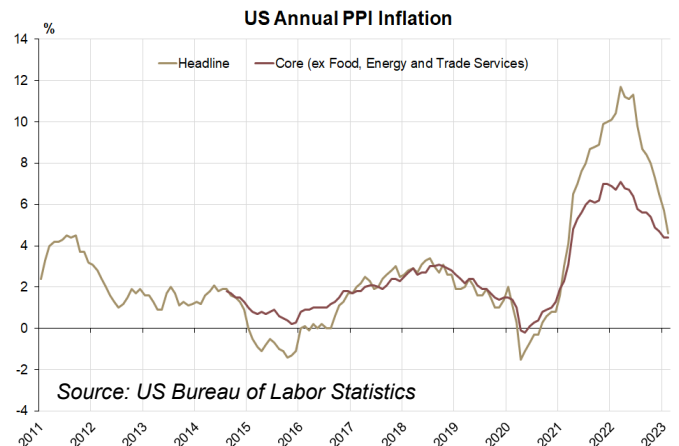


GLOBAL ECONOMY

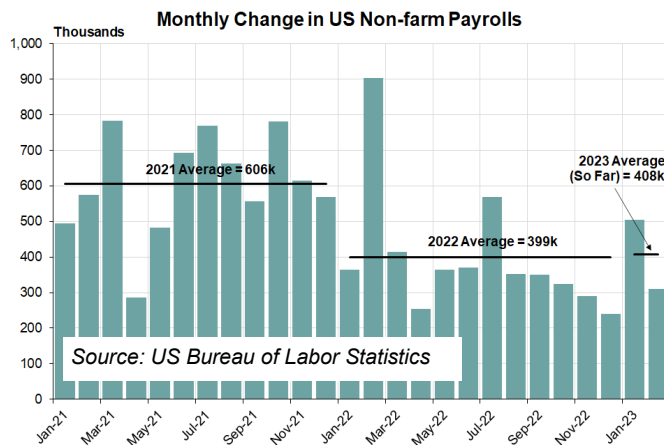
US CPI inflation continued to decline in February, but remained elevated.



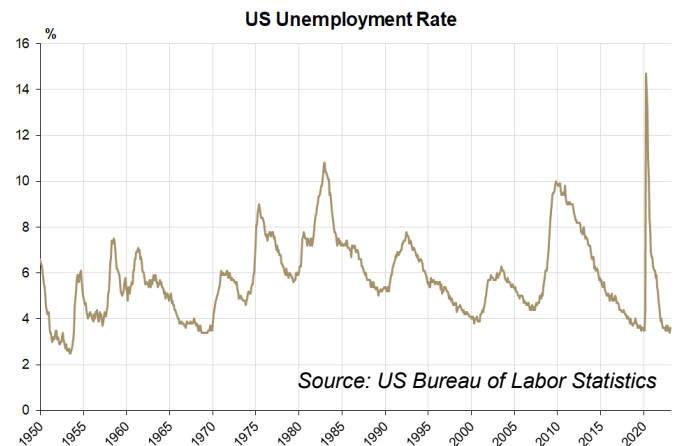
US headline PPI inflation has also dropped, though the decline in core inflation became stalled in February.



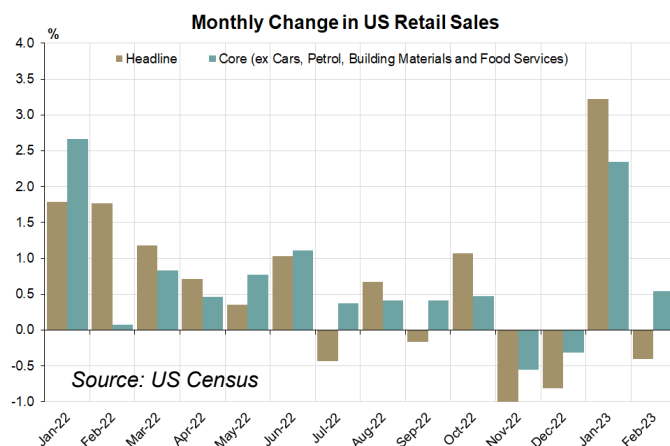
US non-farm payrolls saw another strong increase in February...



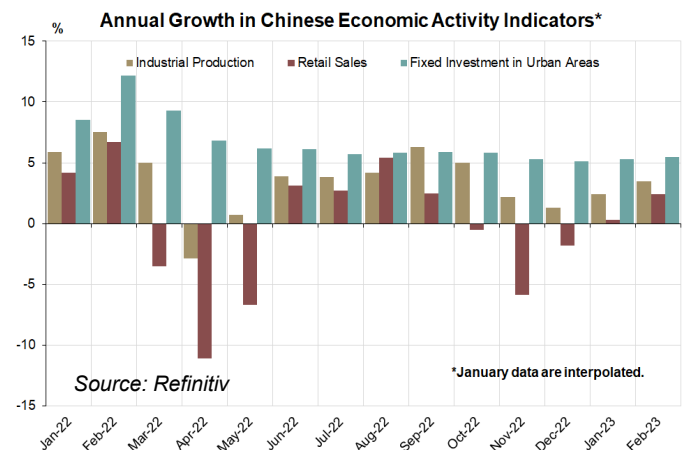
... while the **unemployment rate** remained historically low, despite a slight pick-up.



US retail core retail sales continued to climb in February, suggesting resilient consumer demand.



Chinese economic activity data showed that the economy continues to recover gradually from COVID-19.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

17 March 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment	
Mon 13	<i>No market moving data.</i>					
Tue 14	AU	NAB Business Conditions (Feb)	17	-	18	Strong, despite a slight decline amid lower profitability.
	AU	NAB Business Confidence (Feb)	-4	-	6	Confidence slipped across all states.
	AU	Westpac Consumer Sent. (MoM, Mar)	0.0%	-	-6.9%	Signs of deterioration in labour market confidence.
	UK	Unemployment Rate (Jan)	3.7%	3.8%	3.7%	Jobless claims declined further in February.
	US	CPI (MoM, Feb)	0.4%	0.4%	0.5%	Annual rate of consumer price inflation still at 6.0%.
Wed 15	AU	Payroll Jobs (MoM, w/e 11 Feb)	2.6%	-	-5.4%	WA saw the highest growth since March 2020.
	AU	Total Wages (MoM, w/e 11 Feb)	3.3%	-	-7.8%	Up 7.7% through the year.
	CH	Retail Sales (YoY, Feb)	3.5%	3.4%	-1.8%	Chinese consumer demand is recovering gradually.
	CH	Industrial Production (YoY, Feb)	2.4%	2.7%	1.3%	The fastest increase since October 2022.
	CH	Urban Fixed Inv. (YoY YtD, Feb)	5.5%	4.3%	5.1%	Suggests sustained demand for Aussie iron ore.
	US	Retail Sales (MoM, Feb)	-0.4%	-0.3%	3.2%	Core retail sales rose by another 0.5% in February.
	US	PPI (MoM, Feb)	-0.1%	0.3%	0.3%	Annual PPI inflation fell to 4.6%, a near two-year low.
Thu 16	AU	Employment (monthly change, Feb)	64.6k	49.1k	-10.9k	Surged to a fresh record high.
	AU	Unemployment Rate (Feb)	3.5%	3.6%	3.7%	The number of unemployed dropped by 16.5k.
	NZ	GDP (QoQ, Q4)	-0.6%	-0.2%	1.7%	Long-awaited Kiwi recession may have arrived.
	EZ	ECB Decision (Deposit Rate)	3.00%	3.00%	2.50%	ECB shifted to the data-dependent guidance.
	US	Initial Jobless Claims (w/e 11 Mar)	192k	205k	212k	Continued claims also fell in w/e 4 March.
Tonight	US	Industrial Production (MoM, Feb)	-	0.2%	0.0%	PMIs point to a decline in manufacturing.
	US	UoM Consumer Conf. (Mar, prel.)	-	67.0	67.0	Report will include consumer inflation expectations.

Next Week

	Event	Forecast	Previous	Comment	
Mon 20	AU	Assistant RBA Governor Speaks	-	-	Public appearance by Assistant Governor Kent.
	CH	PBoC Decision (1-year Loan Prime Rate)	3.65%	3.65%	PBoC using other instruments to support the economy.
Tue 21	AU	RBA Board Minutes (Mar)	-	-	More insights into the dovish tilt in March.
Wed 22	UK	CPI (MoM, Feb)	-	-0.6%	Annual inflation expected to remain high.
	US	FOMC Decision (IoER)	4.90%	4.65%	A pause not ruled out by some market participants.
Thu 23	UK	Bank of England Decision (Bank Rate)	4.25%	4.00%	UK economy looks stronger than BoE expected.
Fri 24	AU	Judo Bank Composite PMI (Mar, flash)	-	50.6	Rose back into expansion in February.
	JP	CPI (YoY, Feb)	3.3%	4.3%	Hit over a 40-year high in January.
	JP	Jibun Bank Composite PMI (Mar, flash)	-	51.1	Japanese manufacturing remains in contraction.
	EZ	S&P Global Composite PMI (Mar, flash)	51.8	52.0	February saw the fastest expansion in eight months.
	UK	S&P Global Composite PMI (Mar, flash)	-	53.1	Input cost inflation the lowest since Apr 2021 in February.
	US	Durable Goods Orders (MoM, Feb)	1.7%	-4.5%	Core capital goods orders rose in January.
	US	S&P Global Composite PMI (Mar, flash)	-	50.1	The seven-month long contraction ended in February.