

WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

10 March 2023

THIS WEEK'S HIGHLIGHTS

- At home, the RBA has increased its cash rate target by 25bps to 3.60%, as expected, but signalled a possible pause in tightening ahead.
- Offshore, Fed Chair Jerome Powell hinted at a possible re-acceleration in the pace of tightening. ADP employment and JOLTS job openings pointed to the ongoing robustness of the US labour market, though initial jobless claims for last week rose more than expected. Chinese trade and inflation numbers for February were on the weak side.

NEXT WEEK'S HIGHLIGHTS

- The key domestic releases next week will be the NAB business survey for February and Westpac consumer confidence for March on Tuesday, the jobs and payrolls report for the week ending 11 February, as well as the February labour force survey on Thursday.
- The major events abroad will be the US CPI for February on Tuesday, Chinese February activity data, as well as US retail sales for February on Wednesday, the ECB decision on Thursday, US February industrial production as well as the preliminary March University of Michigan consumer sentiment index on Friday, which will include consumer inflation expectations.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.60 (↑25 pt)	O/N Interbank Cash	3.57 (↑25 pt)	USD 3-month	5.15 (↑17 pt)	ASX200	7170 (↓115 pt)
US (IOR)	4.65 (0 pt)	90-day Bills	3.64 (↑1 pt)	2-yr T-Notes	4.80 (↓9 pt)	S&P500	3918 (↓63 pt)
Eurozone (Deposit)	2.50 (0 pt)	3-yr T-Bond	3.35 (↓26 pt)	10-yr T-Notes	3.85 (↓20 pt)	DJIA	32255 (↓749 pt)
UK	4.00 (0 pt)	10-yr T-Bond	3.63 (↓28 pt)	Jap 10-yr	0.50 (↓1 pt)	Nikkei	28272 (↑373 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.72 (↓29 pt)	UK 10-yr	3.78 (↓10 pt)	CSI300	3987 (↓124 pt)
China (1Y LPR)	3.65 (0 pt)	10-yr WATC Bond	4.22 (↓30 pt)	Ger 10-yr	2.53 (↓22 pt)	Stoxx600	460 (↓0 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

As expected, the RBA increased the cash rate target by 25bps to 3.60% on Tuesday, but the statement was tweaked to lay the groundwork for a pause of tightening ahead, depending on the data. In a speech the following day, RBA Governor Philip Lowe confirmed that "we are closer to the point where it will be appropriate to pause interest rate increases", though he stressed that any decision will depend on the incoming data. RBA cash rate expectations moved lower in response, with the markets now anticipating a pause in April or May and a peak at around 4.00%.

In contrast, Fed Chair Jerome Powell, an even more hawkish tone this week, saying at the US Congressional hearings that a higher "ultimate level of interest rates" could be needed and the FOMC was ready to re-accelerate its tightening if necessary.

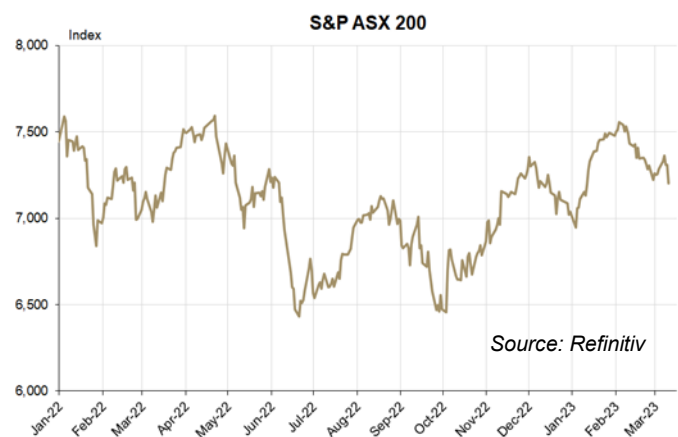
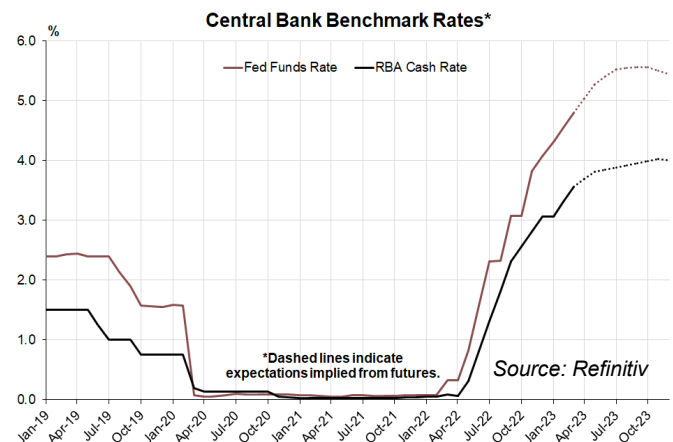
After Chair Powell's comments, fed funds rate expectations rose significantly, but fell back after the disappointing initial jobless claims on Thursday. Currently, the expectations for the meeting on 21-22 March are almost evenly split between a 25- and 50bps hike, while the terminal rate is anticipated at just below 5.50%.

Equities

Trade on global equity markets has been mainly negative this week, led by declines on Wall Street as hawkish comments by Chair Powell to the US Senate Banking Committee weighed on sentiment.

The Aussie market was boosted by hints of an upcoming rate hike pause from the RBA but has ultimately been dragged down by the slide in the US.

Chinese shares were weighed down by news of the government's underwhelming 5% growth target for 2023 and soft import data, while the Japanese market is sitting at its highest level in six months.



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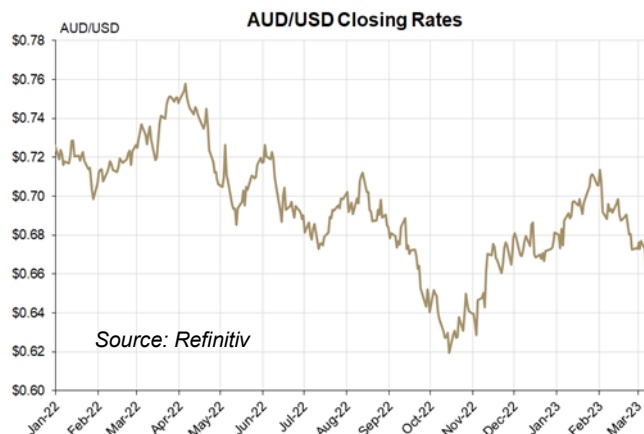
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Currencies

The Australian dollar has been the weakest member of the G10 currency basket, weighed down by the commentary from the RBA signalling the possibility of an upcoming pause in the interest rate hiking cycle.

The currency has been steady following the initial drop after the RBA meeting. The slide in commodity prices and drop in global financial market risk appetite, driven by US Federal Reserve warnings of higher interest rates, prevented any meaningful recovery.

The Aussie is currently sitting at its lowest level against the greenback since November last year and its lowest level since October in trade weighted terms.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6575	0.6774	0.6566	↓2.4	0.7661	0.6169
AUD/EUR		0.6205	0.6372	0.6202	↓2.3	0.7000	0.6202
AUD/GBP		0.5515	0.5645	0.5512	↓2.1	0.6260	0.5468
AUD/JPY		89.77	92.24	89.37	↓2.5	98.43	84.00
AUD/CNY		4.5815	4.6799	4.5728	↓1.5	4.8743	4.4365
EUR/USD		1.0594	1.0694	1.0523	↓0.1	1.1184	0.9534
GBP/USD		1.1918	1.2065	1.1802	↓0.3	1.3298	1.0382
USD/JPY		136.53	137.91	135.36	↓0.1	151.94	115.54
USD/CNY		6.9680	6.9680	6.8616	↑1	7.3270	6.3084

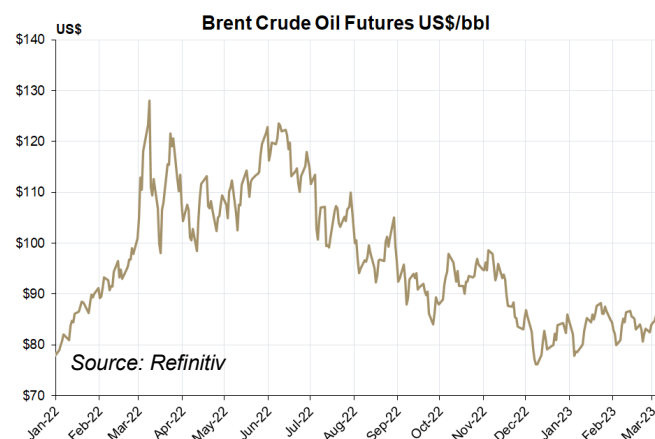
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6575	0.6599	0.6626	0.6672
AUD/EUR		0.6205	0.6193	0.6186	0.6167
AUD/GBP		0.5515	0.5522	0.5529	0.5541
AUD/JPY		89.77	88.87	87.92	85.89
AUD/NZD		1.0779	1.0815	1.0859	1.0944
AUD/SGD		0.8912	0.8916	0.8913	0.8897

Commodities

Concerns over the economic impacts of Fed tightening started to again weigh on oil prices this week, after Fed Chair Jerome Powell warned of the risk of faster and larger tightening by the FOMC at his US Congressional hearings this week. These concerns were further amplified by the economic data, which generally pointed to the resilience of the US labour market to tightening. In addition, the Chinese economic data were on the weak side, pointing to sluggish imports as well as weak demand and cost pressures.

Iron ore futures prices rose 1.0% this week, as the Chinese trade data pointed to an increase in imports of this commodity, reports suggesting a pick-up in Chinese steel output and signs of increased demand for construction steel.

The gold price has declined amid the appreciation of the US dollar due to a rise in fed funds rate expectations.



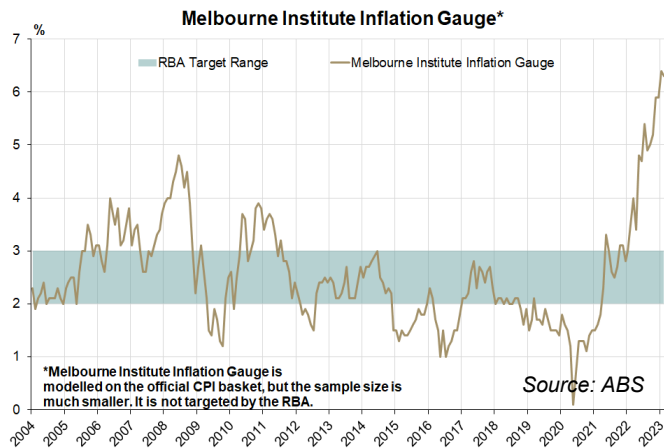
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,828.71	\$1,858.19	\$1,809.27	(↓\$10.09)	\$1,998.70	\$1,613.60
Brent Crude Oil (US\$)	\$81.21	\$86.75	\$81.37	(↓\$3.23)	\$125.28	\$75.11
Mogas95* (US\$)	\$103.07	\$103.20	\$98.20	(↑\$4.82)	\$161.20	\$82.60
WTI Oil (US\$)	\$75.23	\$80.94	\$75.35	(↓\$2.64)	\$123.68	\$70.08
CRB Index	264.65	275.05	264.65	(↓6.65)	329.59	263.69
Iron Ore Price 62% Fe (US\$) **	127.61	\$127.75	\$121.10	(↑\$1.24)	\$166.80	\$75.30

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

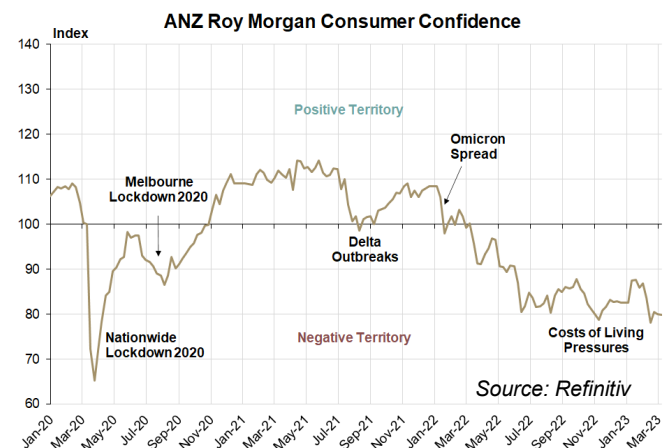
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

Melbourne Institute inflation gauge for February pointed to another month of elevated CPI inflation.



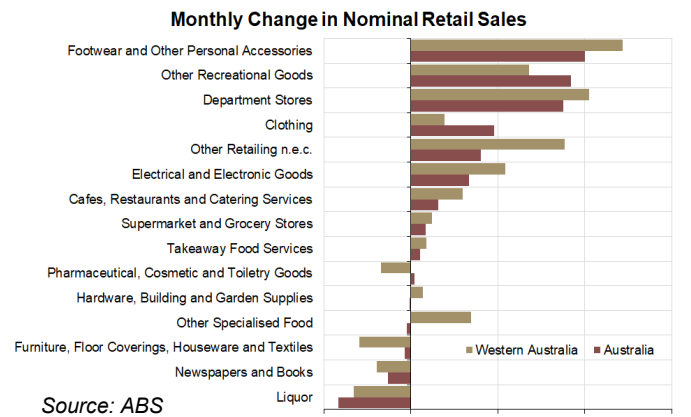
The **ANZ Roy Morgan consumer sentiment index** remained depressed last week...



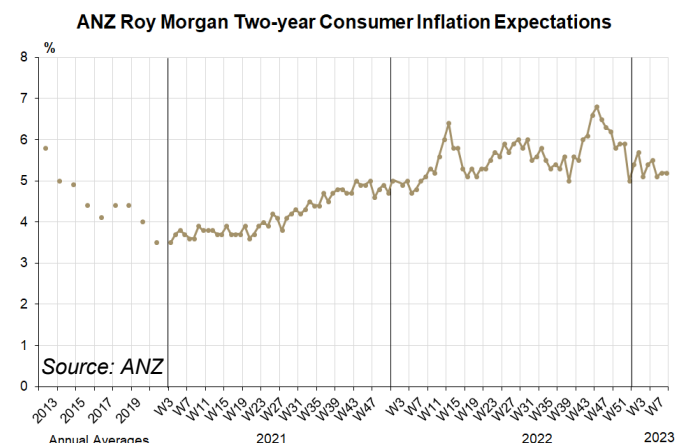
The **trade surplus** narrowed further in January, but remained healthy...



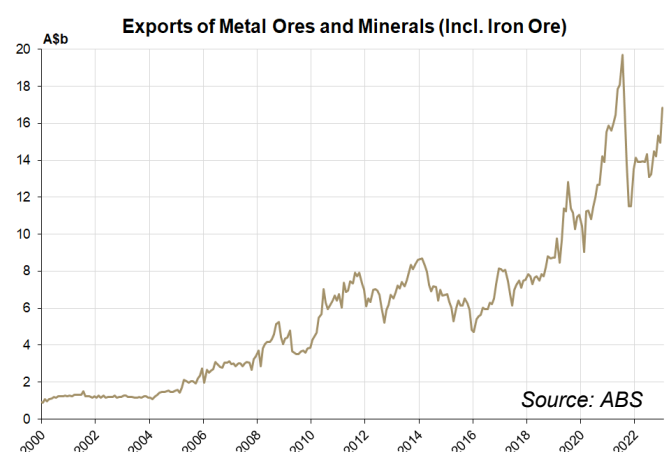
Detailed data showed that **retail trade** discretionary items surged in January, pointing to strong consumer demand.



Consumer inflation expectations remain lower than in late 2022, but are still high by historical standards.

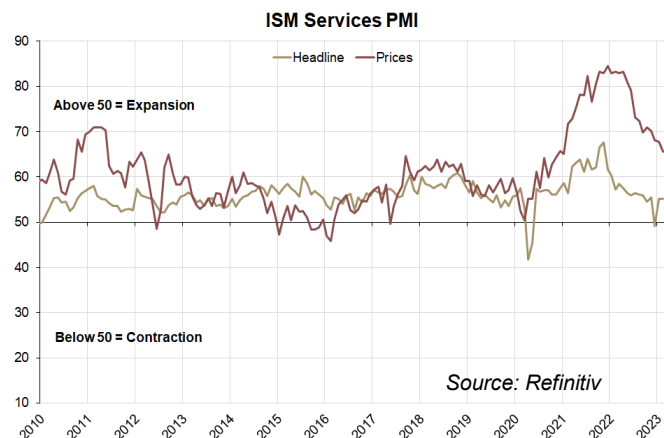


... amid ongoing strong exports of commodities, especially **iron ore**.

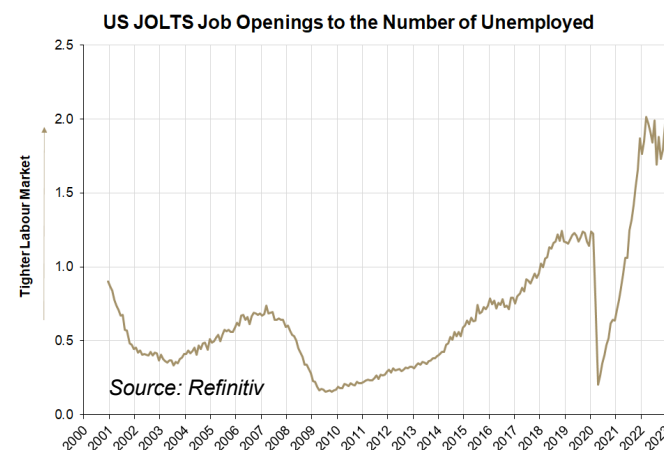


GLOBAL ECONOMY

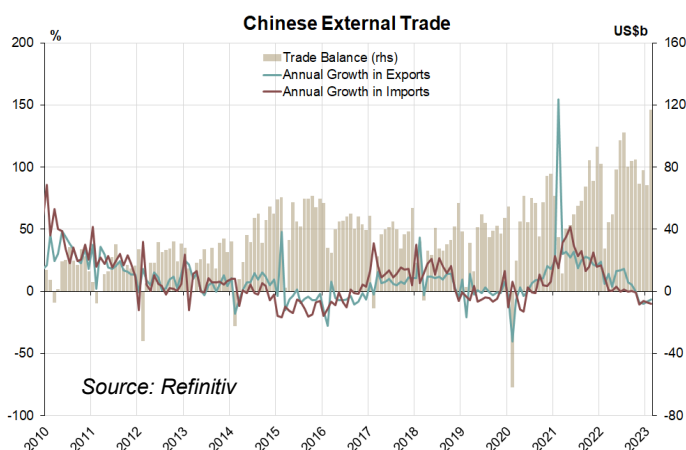
The **ISM services PMI** showed US services expansion continued in February, while cost inflation eased further.



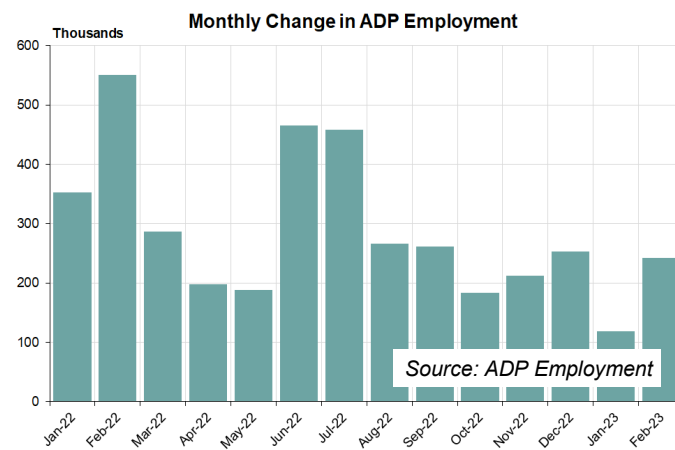
The US labour market remains exceptionally tight, with twice as many **job openings** than officially unemployed.



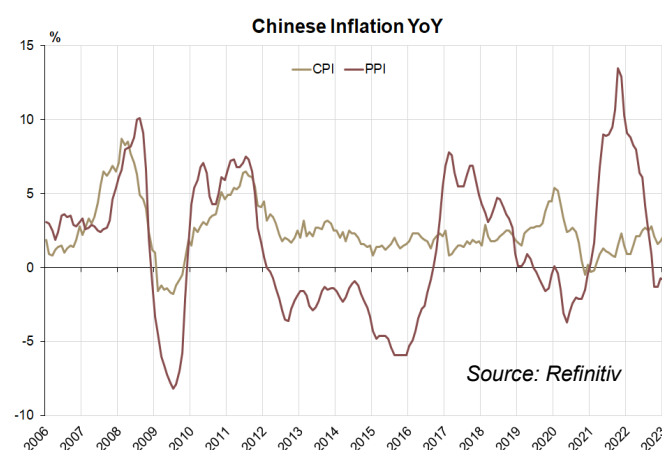
Chinese exports and imports were well down in YoY terms in the first two months of 2023.



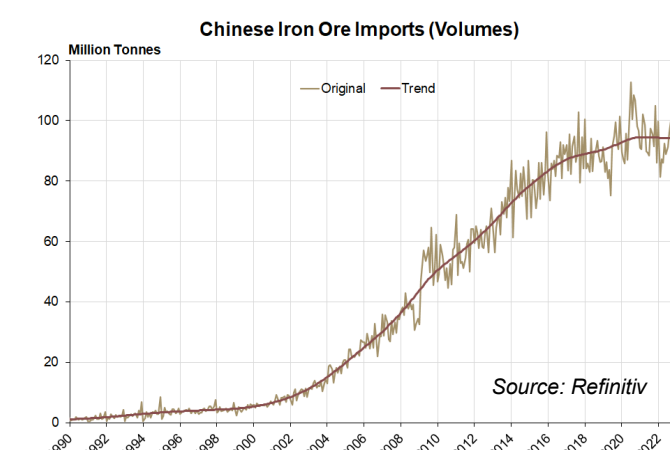
February saw another solid increase in the **US ADP employment** numbers.



In China, **CPI inflation** declined in February and **PPI deflation** deepened, amid low demand and cost pressures.



However, **Chinese iron ore import volumes** were 7.2% higher than a year earlier.



KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 06					
AU	Melbourne Inst. Inflation (MoM, Feb)	0.4%	-	0.9%	Annual rate down 0.1ppts to 6.3%.
Tue 07					
AU	RBA Decision (Cash Rate)	3.60%	3.60%	3.35%	Pause in tightening is likely in April or May.
AU	Trade Balance (Jan)	A\$11.7b	A\$12.4b	A\$13.0b	Despite a decline, trade surplus remains healthy.
AU	ANZ Consumer Conf. (w/e 4 Mar)	-0.1%	-	-0.4%	Consumer inflation expectations steady at 5.2%.
CH	Trade Balance (Jan-Feb)	US\$117b	US\$82b	US\$78b	Chinese iron ore imports up 7% YoY.
US	Fed Monetary Policy Report	-	-	-	FOMC does not rule out a 50bps hike on 22 March.
Wed 08					
AU	Speech by RBA Governor Lowe	-	-	-	RBA will follow closely labour force and CPI numbers.
CA	BoC Decision (Policy Rate)	4.50%	4.50%	4.50%	No hike, as hinted by the BoC in January.
US	ADP Employment (MoM)	242k	200k	119k	Points to another strong rise in non-farm payrolls.
US	JOLTS Job Openings (Jan)	10.8m	10.5m	11.2m	Still nearly double the number of unemployed.
US	Trade Balance (Jan)	-US\$68.3b	-US\$69.0b	-US\$67.2b	Deterioration in the deficit driven by a rise in imports.
US	Beige Book	-	-	-	Economic activity expanded across the Fed districts.
Thu 09					
AU	SEEK Job Ads (MoM, Feb)	-1.6%	-	2.9%	20% off their peak in May 2022, but still elevated.
CH	CPI (YoY, Feb)	1.0%	1.9%	2.1%	The slowest annual CPI growth rate in a year.
CH	PPI (YoY, Feb)	-1.4%	-1.2%	-0.8%	Decline driven by softer commodity costs.
US	Initial Jobless Claims (w/e 4 Mar)	211k	195k	190k	Rise driven by bad weather in California and NY.
Fri 10					
JP	BoJ Decision (Compl. Deposit Rate)	-0.10%	-0.10%	-0.10%	No change at the last meeting chaired by Gov Kuroda.
Tonight					
UK	Monthly GDP (MoM, Jan)	-	0.1%	-0.5%	UK economic data has surprised to the upside of late.
US	Non-farm Payrolls (MoM, Feb)	-	205k	517k	Key figure that will decide on 50bps FFR hike in Mar.
US	Unemployment Rate (Feb)	-	3.4%	3.4%	Hit the lowest level since late 1960s in January.

Next Week

	Event	Forecast	Previous	Comment
Mon 13	No market moving data.			
Tue 14				
AU	NAB Business Conditions (Feb)	-	18	Another indicator the RBA will be following closely.
AU	NAB Business Confidence (Feb)	-	6	Rose back to the series average in January.
AU	Westpac Consumer Sentiment (MoM, Mar)	-	-6.9%	Weekly confidence figures suggest another decline.
UK	Unemployment Rate (Jan)	-	3.7%	Claimant count for January points to no increase.
US	CPI (MoM, Feb)	0.4%	0.5%	One of the key indicators for the Fed.
Wed 15				
AU	Payroll Jobs and Wages (w/e 11 Feb)	-	-	Due to revisions in methodology, the last data is for Nov.
CH	Retail Sales (YoY, Feb)	3.4%	-1.8%	PMIs pointed to a strong rebound.
CH	Industrial Production (YoY, Feb)	2.5%	1.3%	PMI reports suggest acceleration.
CH	Urban Fixed Asset Inv. (YoY YtD, Feb)	4.1%	5.1%	The key indicator for Chinese iron ore demand.
US	Retail Sales (MoM, Feb)	0.3%	3.0%	US consumers start to feel the brunt of higher prices.
US	PPI (MoM, Feb)	0.3%	0.7%	January saw the strongest increase in half a year.
Thu 16				
AU	Employment (monthly change, Feb)	47.0k	-11.5k	A rebound expected after disruptions at the turn of 2023.
AU	Unemployment Rate (Feb)	3.6%	3.7%	Remains historically low.
NZ	GDP (QoQ, Q4)	-0.2%	2.0%	RBNZ forecasts recession this year.
EZ	ECB Decision (Deposit Rate)	3.00%	2.50%	ECB deposit rate expected to peak at 4.00%.
Fri 17				
US	Industrial Production (MoM, Feb)	0.3%	0.0%	PMIs point to a decline in manufacturing.
US	UoM Consumer Confidence (Mar, prel.)	67.3	67.0	Report will include consumer inflation expectations.