

THIS WEEK'S HIGHLIGHTS

- Following the takeover of Credit Suisse by UBS and the coordinated central bank action to provide US dollar liquidity, it appears that the risk of broader contagion in the global financial markets has been averted for now. This allowed central banks in the advanced economies, including the Fed, to increase policy rates this week.
- In Australia, the RBA Board minutes confirmed that a pause in tightening is being considered for April.
- Data-wise, the Judo Bank flash PMIs suggested that the Aussie private sector activity slid back into contraction in March.

NEXT WEEK'S HIGHLIGHTS

- The major domestic economic releases next week will be retail sales on Tuesday, the monthly CPI indicator on Wednesday, quarterly job vacancies on Thursday and private sector credit on Friday; all those readings are for February.
- The key events offshore will include the Chinese NBS PMIs for March and the US personal income and outlays report for February, which will include PCE price inflation targeted by the Fed.

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	5.13	(↑17 pt)	ASX200	6954	(↓32 pt)
US (IOR)	4.90	(↑25 pt)	90-day Bills	3.70	(↑1 pt)	2-yr T-Notes	3.83	(↓37 pt)	S&P500	3949	(↓12 pt)
Eurozone (Deposit)	3.00	(0 pt)	3-yr T-Bond	2.84	(↓19 pt)	10-yr T-Notes	3.40	(↓17 pt)	DJIA	32105	(↓141 pt)
UK	4.25	(↑25 pt)	10-yr T-Bond	3.24	(↓18 pt)	Jap 10-yr	0.30	(↓1 pt)	Nikkei	27320	(↑126 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	3.32	(↓17 pt)	UK 10-yr	3.37	(↓2 pt)	CSI300	4028	(↑43 pt)
China (1Y LPR)	3.65	(0 pt)	10-yr WATC Bond	3.97	(↓17 pt)	Ger 10-yr	2.19	(↓9 pt)	Stoxx600	446	(↑5 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

As expected, the FOMC raised the fed funds rate target range by 25bps to 4.75-5.00% and reinforced that they remain "highly attentive to inflation risks".

The FOMC addressed the recent turmoil in the financial markets by saying that, while the US banking system is sound, the recent developments will likely lead to tighter credit conditions and, in consequence, weigh on economic activity and inflation.

The Fed also released new projections, with the end-of-year fed funds rate forecast kept at 5.1% and the end-of-2024 expectation being nudged up to 4.3% from 4.1%. The futures market is pricing in that this was the last of the Fed rate hikes and that there will be rate cuts in the second half of the year.

The Bank of England, Swiss National Bank and Norges Bank followed the FOMC in increasing interest rates this week.

RBA minutes confirmed that the Board will consider a pause in interest rate increases at the April meeting. Currently, the futures market is pricing in that this will be the peak of the hiking cycle.

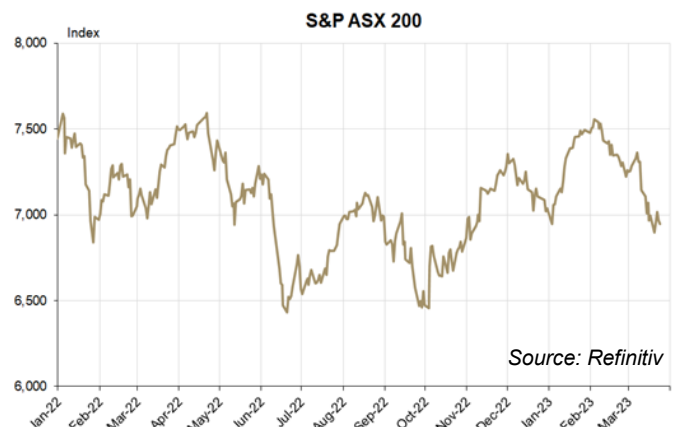
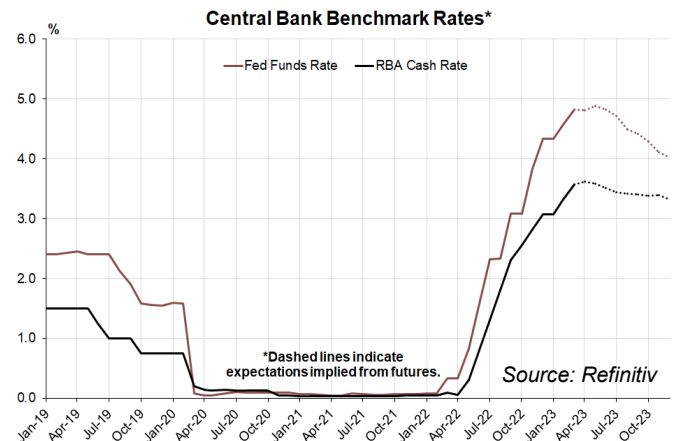
Government bond yields saw another considerable decline this week, amid continued flight-to-safety flows.

Equities

Equities continue to be pushed around by concerns over the health of the global banking system.

European markets were buoyed by Swiss Government efforts to contain the fallout from the collapse of Credit Suisse by brokering a takeover by UBS. US markets were largely unaffected by the Fed interest rate increase, which was largely expected, but were mainly concerned with the changing narrative surrounding bank deposit guarantees.

Aussie equities closed Monday's session at the lowest level since November last year. A midweek recovery has been followed by further losses over the past two days.



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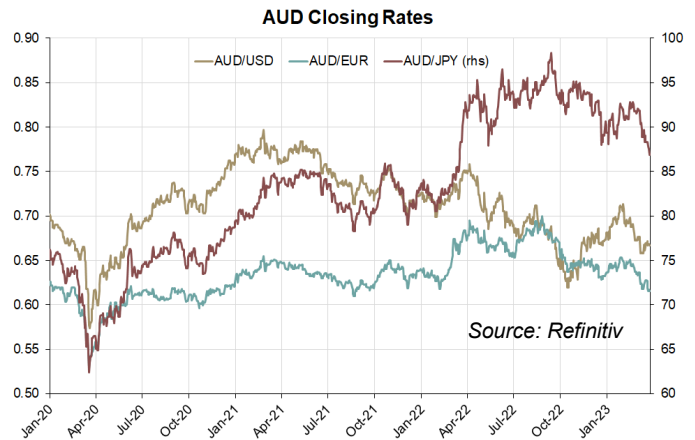
Currencies

The Aussie dollar depreciated against all the major currencies this week. This was due to weakness on Tuesday and on Thursday night, while the AUD saw gains in the remainder of the week.

The weakness in the Australian dollar was driven by heightened risk aversion in the global markets and the increased divergence of Aussie and US interest rate expectations.

The pace of depreciation of the AUD was slowest against the US dollar, which was hit by Fed hints of a rate hike pause.

The AUD was the weakest G10 currency this week, except for the Kiwi dollar. European G10 currencies saw significant gains, amid diminishing concerns over the European banking sector due to UBS's takeover of Credit Suisse, as well as further monetary tightening by the Bank of England, Norges Bank and Swiss National Bank.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6680	0.6758	0.6606	↓0.4	0.7661	0.6169
AUD/EUR		0.6167	0.6306	0.6149	↓2.1	0.7000	0.6149
AUD/GBP		0.5438	0.5531	0.5424	↓1.5	0.6260	0.5424
AUD/JPY		87.07	89.48	86.68	↓2.4	98.43	86.68
AUD/CNY		4.5734	4.6496	4.5393	↓0.9	4.8743	4.4365
EUR/USD		1.0828	1.0929	1.0548	↑1.8	1.1184	0.9534
GBP/USD		1.2280	1.2343	1.2026	↑1.1	1.3298	1.0382
USD/JPY		130.35	133.83	130.15	↓2.1	151.94	120.58
USD/CNY		6.8464	6.8464	6.8160	↓0.5	7.3270	6.3349

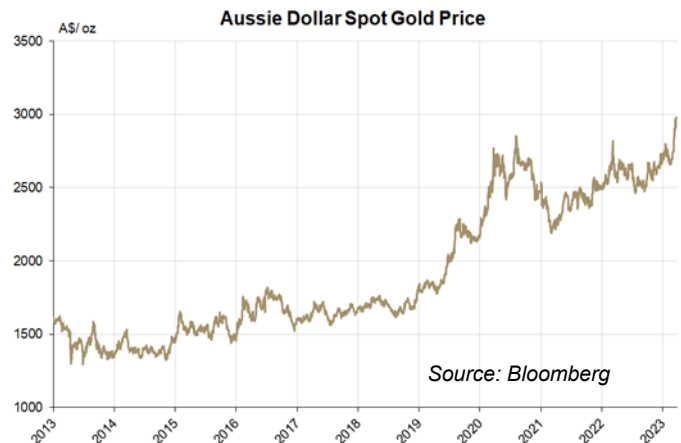
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6680	0.6702	0.6721	0.6744
AUD/EUR		0.6167	0.6157	0.6150	0.6137
AUD/GBP		0.5438	0.5448	0.5460	0.5478
AUD/JPY		87.07	86.18	85.33	83.62
AUD/NZD		1.0707	1.0745	1.0788	1.0870
AUD/SGD		0.8868	0.8873	0.8865	0.8841

Commodities

Crude oil prices are little changed from this time last week. Prices sank last Friday on concerns over a developing global banking crisis, but they rebounded as further action by authorities to paper over the cracks drove a rebound in risk appetite.

Iron ore futures prices are on track for their first weekly fall in three weeks, dragged down by concerns over efforts by Chinese authorities to keep a lid on prices and reports of faltering steel demand.

Gold prices hit a 12-month high in USD terms and a record high against the Aussie dollar, boosted by concerns over financial stability and the slide in bond yields.



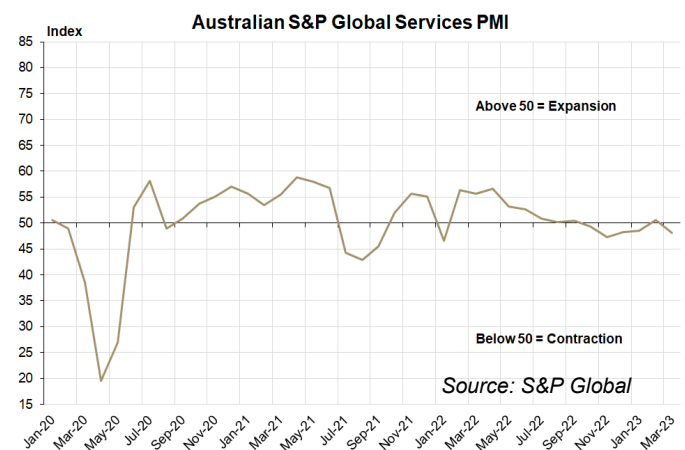
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,992.94	\$2,009.59	\$1,907.36	(↑\$65.11)	\$2,009.59	\$1,613.60
Brent Crude Oil (US\$)	\$75.67	\$77.44	\$70.12	(↑\$0.06)	\$125.28	\$70.12
Mogas95* (US\$)	\$98.15	\$98.20	\$93.32	(↑\$2.18)	\$161.20	\$82.60
WTI Oil (US\$)	\$69.72	\$71.67	\$64.12	(↑\$0.52)	\$123.68	\$64.12
CRB Index	257.78	258.65	254.03	(↑1.13)	329.59	254.03
Iron Ore Price 62% Fe (US\$) **	118.22	\$132.70	\$116.60	(↓\$10.93)	\$164.50	\$75.30

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

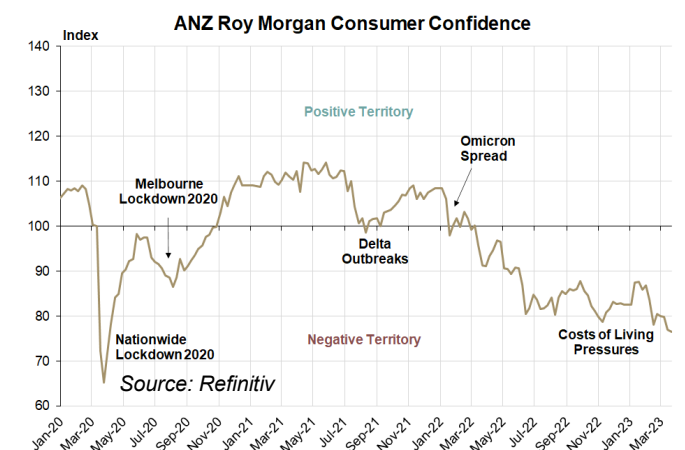
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

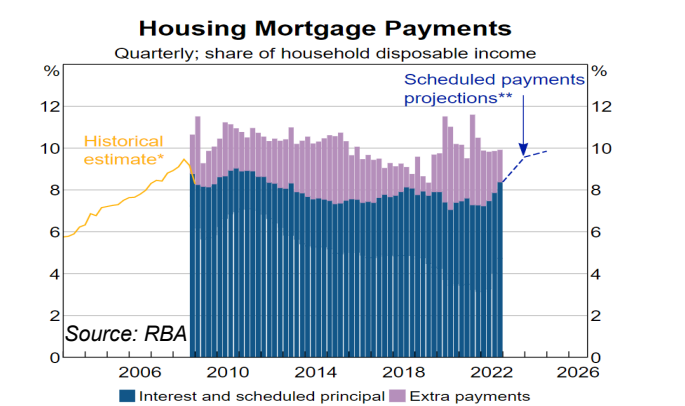
*The **Judo Bank services PMI** has fallen back into contraction, as high inflation and interest rates weigh on demand.*



*The **ANZ consumer confidence index** continues to establish new 3-year lows...*

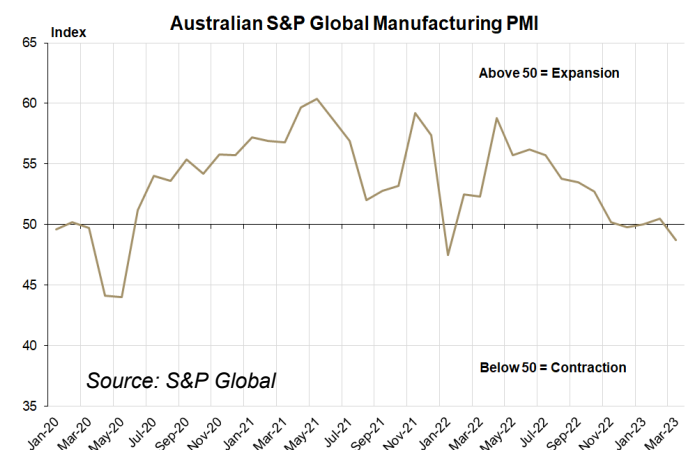


... and housing mortgage repayments consume an increasingly large share of disposable personal income.

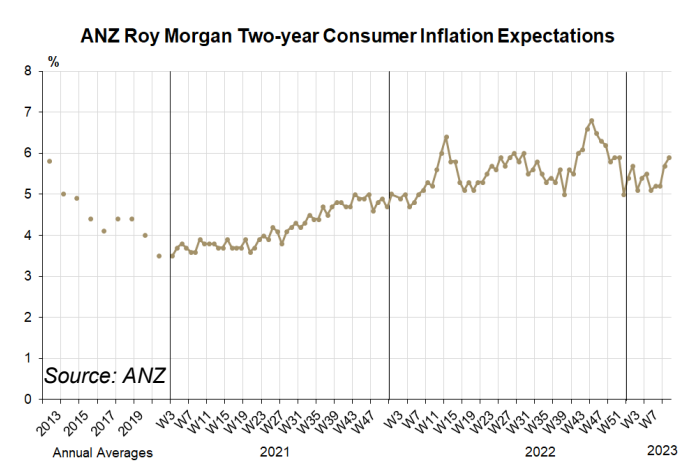


* Estimated scheduled payments using credit foncier model.
** Based on cash rate increases to date. Projections incorporate the observed gap between cash rate increases and increases to variable loan rates.

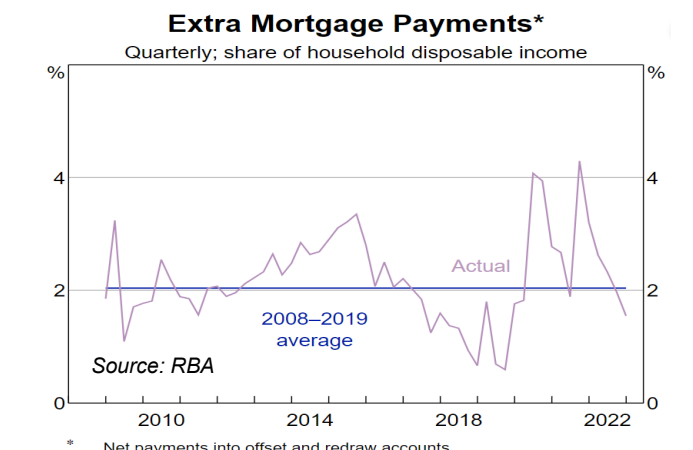
*Weaker demand has also translated into renewed contraction in **Aussie manufacturing**.*



*... as **consumer inflation expectations** resumed climbing after several weeks of stabilisation...*



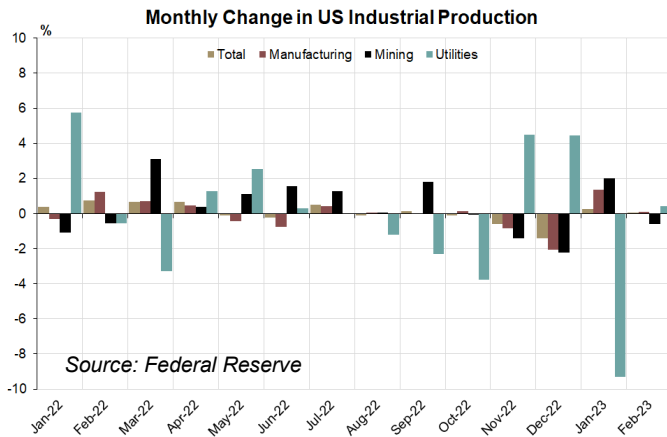
*As a result of higher obligatory repayments, households have less resources to build up **financial buffers**.*



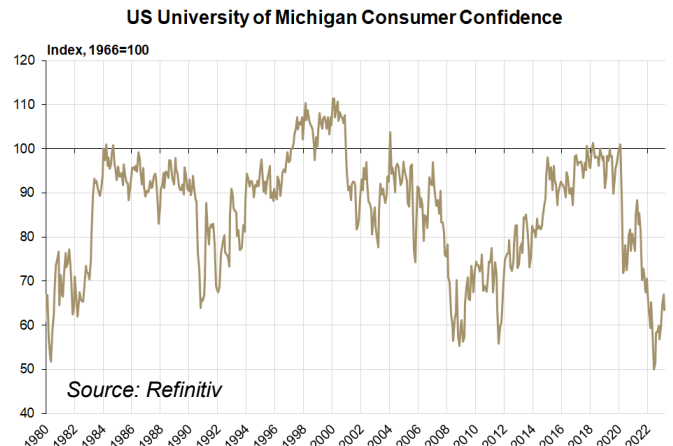
* Net payments into offset and redraw accounts.

GLOBAL ECONOMY

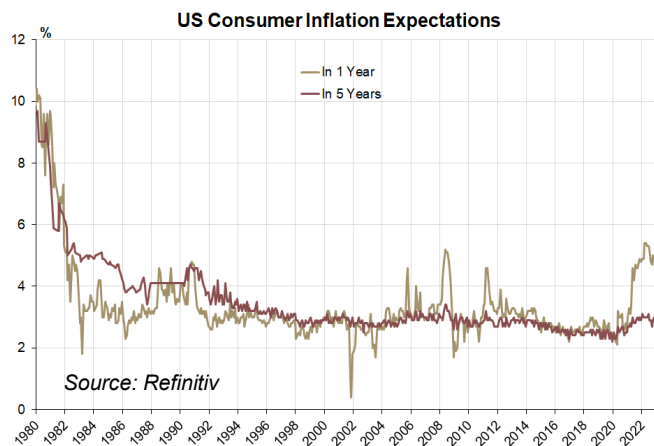
US industrial production, including manufacturing, stagnated in February after a good start to 2023.



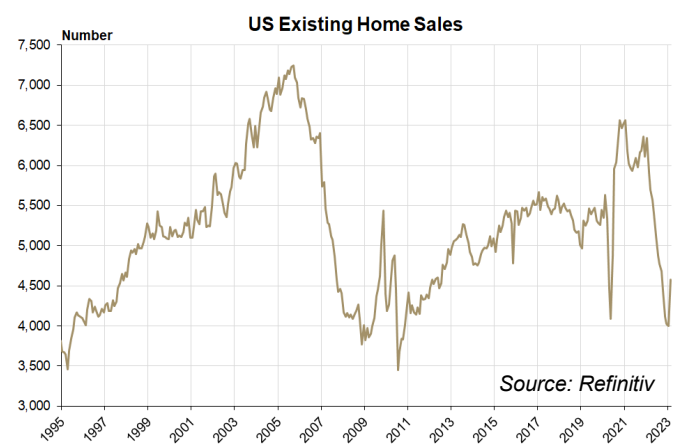
The US University of Michigan consumer confidence index slipped in March, from already depressed levels...



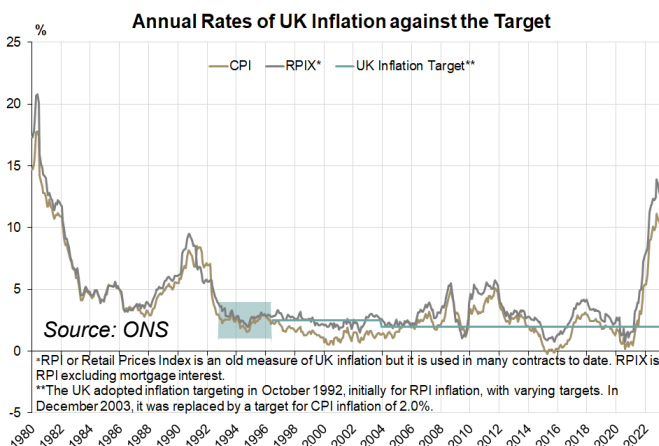
... despite another decline in US consumer inflation expectations.



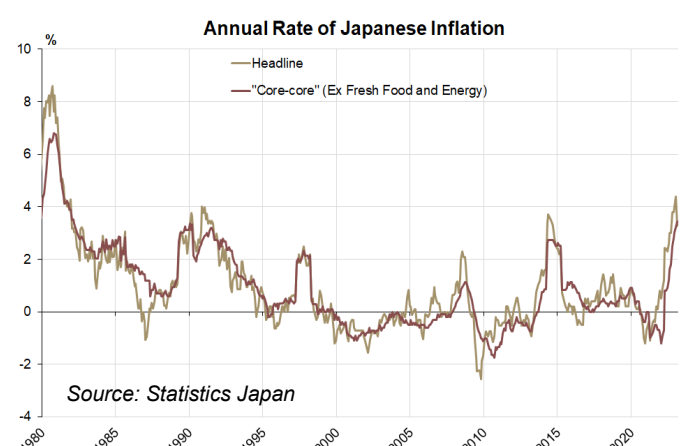
Demand for US housing remains low amid ongoing monetary tightening by the Fed.



The annual rate of UK CPI inflation is still not slowing and remains close to a 40-year high.



Japanese headline CPI inflation declined in February, but "core-core" inflation climbed to a 41-year high.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

24 March 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 20					
AU	Assistant RBA Governor Speaks	-	-	-	It may take rate hikes longer to impact the economy.
CH	PBoC Decision (1Y Loan Prime Rate)	3.65%	3.65%	3.65%	PBoC supports the economy by other instruments.
Tue 21					
AU	RBA Board Minutes (Mar)	-	-	-	RBA is indeed considering a pause in April.
AU	ANZ Consumer Conf. (w/e 18 Mar)	-0.5%	-	-2.9%	Mortgagors least confident since rate hikes started.
Wed 22					
UK	CPI (MoM, Feb)	1.1%	0.6%	-0.6%	Core CPI rose 1.2% against 0.8% expected.
US	FOMC Decision (IoER)	4.90%	4.90%	4.65%	Markets expect this to be the last hike in the cycle.
Thu 23					
UK	BoE Decision (Bank Rate)	4.25%	4.25%	4.25%	Bank of England hinted a possible pause in tightening.
US	Initial Jobless Claims (w/e 18 Mar)	191k	198k	192k	Is yet to reflect recent lay-offs in the US tech sector.
Fri 24					
AU	Judo Bank Composite PMI (Mar, flash)	48.1	-	50.6	Back in contraction as higher rates and inflation bite.
JP	CPI (YoY, Feb)	3.3%	3.3%	4.3%	"Core-core" inflation rose to 3.4%, a 41-year high.
JP	Jibun Bank Composite PMI (Mar, flash)	51.9	-	51.1	Japanese manufacturing still in contraction.
Tonight					
EZ	S&P Composite PMI (Mar, flash)	-	51.8	52.0	Expected to remain in moderate expansion.
UK	S&P Composite PMI (Mar, flash)	-	-	53.1	Input cost inflation the lowest since Apr 2021.
US	Durable Goods Orders (MoM, Feb)	-	1.1%	-4.5%	Core capital goods orders expected to rise further.
US	S&P Composite PMI (Mar, flash)	-	-	50.1	The seven-month long contraction ended in February.

Next Week

	Event	Forecast	Previous	Comment
Mon 27	<i>No market-moving data.</i>			
Tue 28				
AU	Retail Trade (MoM, Feb)	0.1%	1.9%	Banking data point to slower growth.
US	C-S Hse Price Index 20 Cities (YoY, Jan)	-	4.6%	Fed tightening is increasingly impacting US housing.
Wed 29				
AU	Monthly CPI Indicator (YoY, Feb)	7.2%	7.4%	Inflation expected to decline gradually from now on.
Thu 30				
AU	Job Vacancies (QoQ, Q1)	-	-4.9%	Despite a fall in vacancies, labour market remains tight.
US	GDP (QoQ Annualised, Q4, 3rd estimate)	2.7%	3.2%	Broader US economy remains resilient to Fed tightening.
Fri 31				
AU	Private Sector Credit (MoM, Feb)	0.4%	0.4%	Business remains a major driver of credit growth.
CH	NBS Composite PMI (Mar)	-	56.4	Jumped to a record high in February.
EZ	HICP (YoY, Mar, flash)	7.5%	8.5%	Core inflation is on a steady increase.
US	Personal Spending (MoM, Feb)	0.2%	1.8%	Retail sales data pointed to ongoing strength.
US	PCE Index (MoM, Feb)	0.4%	0.6%	CPI report suggested only marginal deceleration.