

Interest Rates			FX		Commodities US\$			
Australia		Δ bp	AUD/USD	0.6586	-2.1%	WTI Crude Oil	77.20	-\$3.29
90-day Bill	3.63	0	AUD/JPY	90.47	-1.2%	Brent Crude Oil	83.29	-\$2.89
3-year Bond	3.41	-10	AUD/EUR	0.6246	-0.8%	Mogas95*	103.15	\$3.22
10-year Bond	3.71	-7	AUD/GBP	0.5569	-0.5%	CRB Index	269.58	-4.01
			AUD/NZD	1.0786	-0.7%	Gold	1813.00	-\$31.31
			AUD/CNY	4.5842	-1.7%	Silver	20.05	-\$0.97
US			EUR/USD	1.0541	-1.3%	Iron Ore (62% Fe)**	126.96	\$2.66
2-year Bond	5.03	13	USD/JPY	137.47	1.0%	Iron Ore (22-23 Average)	106.78	\$0.22
10-year Bond	3.98	1	USD/CNY	6.9605	0.4%	Copper	8763.50	-\$157.00
			RBA Policy			Equities		
			O/N Cash Rate Target (%)	3.60		ASX200	7293	-21
Other 10-year			Interbank O/N Cash Rate (%)	3.57		Dow Jones	32856	-575
Japan	0.50	-1	Probability of a 25bps Hike in Apr	39.2%		S&P500	3986	-62
Germany	2.69	-5	RBA Bond Holdings (28 Feb)	A\$350.5b		Stoxx600	461	-4
UK	3.82	-4				CSI300	4049	-60

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

**Iron ore is the second SGX futures contract.

As expected, the **RBA** increased the cash rate target by 25bps to 3.60%, but unexpectedly issued a relatively dovish post-meeting statement by the RBA Governor when compared to the hawkish tone of the February statement.

Most notably, the phrase that the RBA Board expects “further interest increases” was replaced by “further tightening of monetary policy” and, in the paragraph discussing the conditions for further tightening, a phrase “when and how much further interest rates need to increase” replaced a phrase “how much further” they need to rise. To say the least, this lays the groundwork for a pause of tightening ahead, depending on the data.

RBA Governor Philip Lowe, who is speaking at the time of writing, confirmed the above interpretation, saying that “we are closer to the point where it will be appropriate to pause interest rate increases”.

The markets reacted to the post-meeting statement with an adjustment in cash rate expectations, which triggered a rise in the ASX 200, a depreciation of the Aussie dollar and a sharp drop in Commonwealth bond yields to the lowest levels in around a month. The markets are now pricing in a 25bps hike in the cash rate in April or May and some chance of a further increase beyond then, with a peak of around 4.00% priced in for mid-2023.

Data-wise, Aussie **trade surplus** has narrowed marginally to A\$11.7b from the upwardly revised A\$13.0b in the previous month, as imports rose more than exports in January. The rise in exports was driven by higher iron ore prices, thanks to which Western Australian exports saw another large increase in January and were just 1.8% off their record high from June 2022.

Offshore, US stocks dropped overnight, while US Treasury yields jumped at the front end of the curve, amid hawkish comments by Fed Chair Jerome Powell at a hearing before the US Senate Banking Committee. Chair Powell said that the economic data has been stronger than expected of late and that this points to higher “ultimate level of interest rates”. He added that the FOMC was ready to re-accelerate the pace of tightening if the incoming data suggests it is necessary.

Following the Fed Chair’s comments, fed funds rate expectations rose significantly, with the markets now expecting a 50bps hike to 5.00-5.25% at the meeting on 22 March. The terminal rate moved above 5.50%.

The Chinese trade report revealed a bigger-than-expected surplus for the January-February period, with exports falling less than expected when compared to the year earlier, while imports saw a bigger-than-expected fall. Iron ore imports were 7.0% higher than a year ago.

The disappointing Chinese data, coupled with Chair Powell’s comments, led to a sharp drop in oil prices overnight. Iron ore futures rose by 2.1%.

ECONOMIC DATA REVIEW

- **AU:** Trade Balance (Jan) – Actual A\$11.7b, Expected A\$12.4b, Previous A\$13.0b (revised).
- **CH:** Trade Balance (Jan-Feb) – Actual US\$118.9b, Expected US\$81.8b, Previous US\$78.0b.

ECONOMIC DATA PREVIEW

- **CA:** Bank of Canada Decision (Policy Rate) – Expected 4.50%, Previous 4.50%.
- **US:** ADP Employment (monthly change, Feb) – Expected 200k, Previous 106k.

Disclaimer

Any opinions, judgments, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided to Western Australian Treasury Corporation which Western Australian Treasury Corporation believes to be reliable. Western Australian Treasury Corporation, however, cannot guarantee the accuracy of that information. Thus, any recommendations are made in good faith but are provided only to assist you with any decisions which you make. These recommendations are not intended to be a substitute for professional advice on a particular matter. Before accepting or rejecting those recommendations you must discuss your particular needs and circumstances with Western Australian Treasury Corporation.