

14 April 2023

Weekly Summary – Research update

Please Note: Prices and Information correct as at 12:50pm AEST

Key indices

Australian Indices	14-Apr-23	7-Apr-23	%Δ
S&P/ASX 200	7335	7219	1.6
All Ordinaries	7535	7412	1.7
Small Ordinaries	2921.2	2845	2.7
S&P200 Sectors (GICS)	14-Apr-23	7-Apr-23	%Δ
Consumer Discretionary	3075	3043	1.0
Consumer Staples	13673	13549	0.9
Energy	10823	10689	1.3
Financials ex Property	2480	2445	1.4
Financials	6259	6194	1.1
Health Care	44585	44279	0.7
Industrials	6799	6713	1.3
IT	1583	1537	3.0
Materials	18567	18003	3.1
Property Trusts	1361	1342	1.4
Telecommunications	1553	1542	0.7
Utilities	8520	8518	0.0
Asia Pacific Indices*	14-Apr-23	7-Apr-23	%Δ
Hang Seng	20401	20331	0.3
Nikkei 225	28157	27518	2.3
US Indices**	14-Apr-23	7-Apr-23	%Δ
S&P 500	4146	4105	1.0
Dow Jones	33647	33485	0.5
Nasdaq	12166	12088	0.6
UK & Europe Indices**	14-Apr-23	7-Apr-23	%Δ
FTSE 100	7843	7742	1.3
CAC40	1293	1283	0.8
Dax Index	15729	15598	0.8

*Intraday prices as at 14/04/23 **US, UK and Europe prices will usually refer to previous day's close. Source: FactSet

Economic News

The global economy has been balancing between a tight labour market and easing inflation, especially in the US, but the challenge is the perception that it is easier to bring inflation down from 9% to 5% but significantly harder to bring it down from 5% to the target of 2%.

For example, a target of Core CPI of 2% p.a. would be approximately an average monthly CPI data of only 0.165% per month, however the US Core CPI has been averaging 0.38% over the past 6 months which equates to an annual CPI of 4.7%.

The **March US Core Producer Price Index (PPI)**, which is seen as a precursor to the Core CPI data., has delivered warm relief for data focused investors as a negative number is exactly what was needed to help reduce the number and size of future US rate increases. Core PPI which excludes the cost of food and energy was down -0.1% month-over-month in March, following 0.2% rise in February and came in substantially below market forecasts of a 0.3% increase. It was the first decrease in core producer prices since April 2021. Year-on-year, core producer inflation dropped to a two-year low of 3.4% in March, matching market estimates.

US Producer Prices Index less Foods and Energy March 2019 – March 2023.



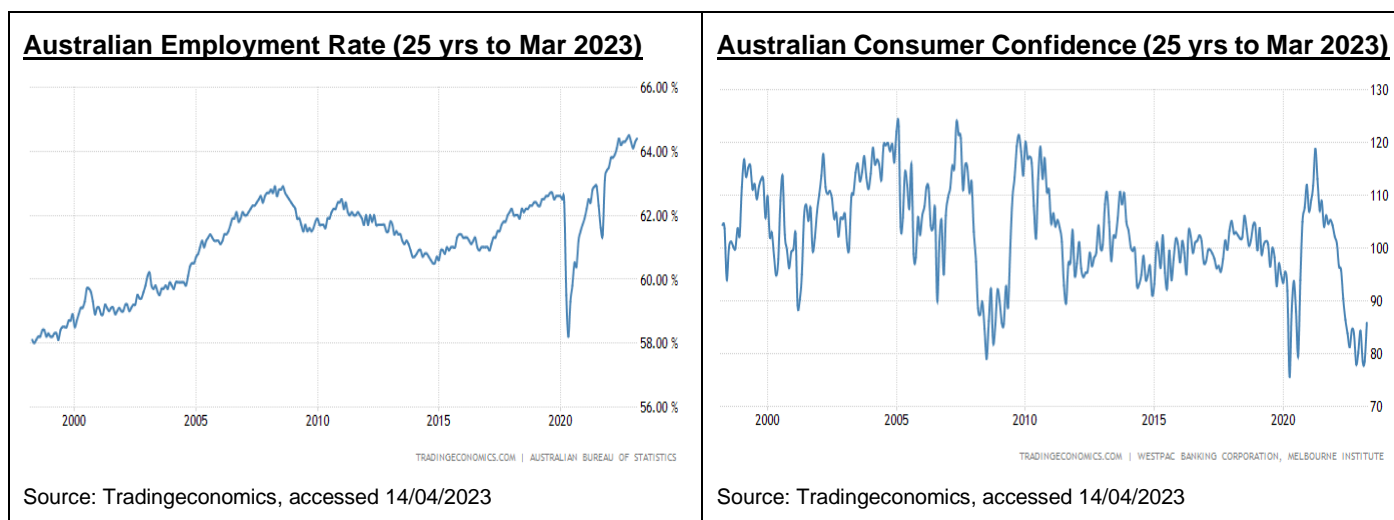
Source: Tradingeconomics, accessed 14/04/2023

The **Reserve Bank of Australia held the cash rate steady** at 3.6% during its April meeting, as expected, marking the first pause in the central bank’s hiking cycle since its beginning in May 2022. The decision came amid efforts to account for policy lags, with the board adding it was ready to resume tightening should the economy need it. *“The decision to hold interest rates steady this month provides the board with more time to assess the state of the economy and the outlook in an environment of considerable uncertainty,”* Governor Philip Lowe said. The committee will be paying close attention to local and overseas data ahead of its next meeting just before the May budget.

Australia's trade surplus increased to \$13.87 bln in February from a \$11.27 bln in January, topping market forecasts of an \$11.10 bln gain. It was also the largest trade surplus since June 2022. Imports tumbled by -9.1% to a 10-month low of \$43.17 bln, reflecting weak domestic demand amid pressures from the cost of living while exports only declined by -2.9% as foreign demand deteriorated amid persistent cost pressures and higher borrowing costs.

The **Westpac-Melbourne Institute Index of Consumer Sentiment for Australia** climbed by 9.4% month-over-month in April to its highest since June last year of 85.8, after staying flat near a 30-year low in March. The upturn was helped by a pause in rate hikes by the RBA, with the measure for economic conditions in the next 12 months surging 16.5% to 85.4. Also, the gauge for family finances in the coming year soared 12.0% to 95.5 while that for family finances vs a year ago rose 10.5% to 70.1. Scores below 100 indicate pessimists outnumber optimists, so these robust increases are coming from depressed low points in the data. Westpac Chief Economist, Bill Evans, *“still characterizes consumer sentiment as weak and consistent with our view that consumer spending through 2023 and at least H1 of 2024 will be lacklustre”*.

Australia's seasonally adjusted unemployment rate stood at 3.5% in March, unchanged from February's near 50-year low but below market estimates of 3.6%. The employment rate increased to 64.4% in March from 64.3%. As can be seen in the chart below the employment rate is higher than the pre-covid and pre GFC peaks. Full-time employment rose by 72,200 to 9,748,900, while part-time fell by 19,200 to 4,135,600. The participation rate was unchanged at 66.7%, above the consensus of 66.6%.



The annual **inflation rate in the US** slowed for a ninth consecutive period to 5% in March from 6% in February, and below market forecasts of 5.2%. Food prices grew at a slower rate (8.5% vs 9.5% in February) and energy cost fell (-6.4% vs +5.2%), namely gasoline (-17.4%) and fuel oil (-14.2%). At the same time, prices for used cars and trucks declined once again (-11.6% vs -13.6%). On the other hand, inflation for shelter which accounts for over 30% of the total CPI basket, continued to march higher (8.2% vs 8.1%). Compared to the previous month, the CPI edged 0.1% higher, also below expectations of 0.2%, with higher shelter prices (0.6%) offsetting a 3.5% fall in energy cost.

The annual **core consumer price inflation rate in the United States**, which excludes volatile items such as food and energy, rose to 5.6% in March, from a 14-month low of 5.5% in the prior month, matching market estimates. On a monthly basis, core consumer prices rose by 0.4% from a month earlier in March, in line with market expectations, and slightly below the 0.5% increase in February.

The number of **job openings in the United States** fell by 632,000 to 9.9 million in February, the lowest level since May 2021 and below market expectations of 10.4 million signalling the labour market might have started cooling. Over the month, the largest decreases in job openings were in professional and business services (-278,000); health care and

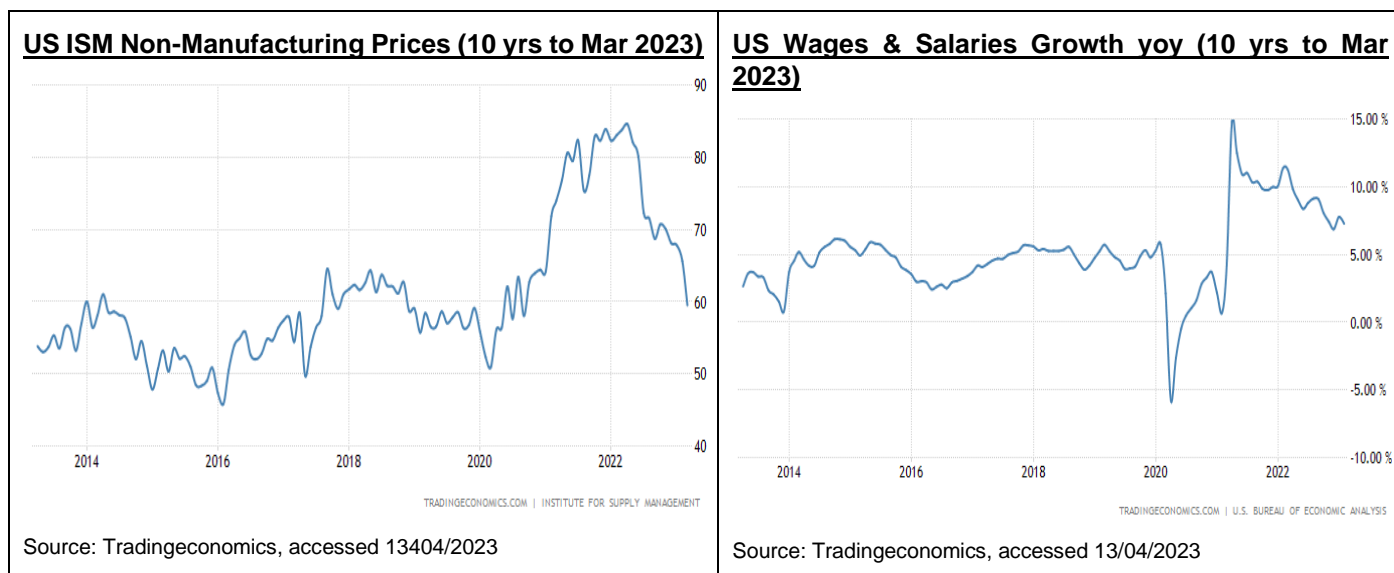
social assistance (-150,000). On the other hand, the number of job openings increased in construction (+129,000) and in arts, entertainment, and recreation (+38,000).

The **trade deficit in the US** increased to \$70.5 bln in February, the highest in four months and slightly above forecasts of \$69 bln. Total exports went down -2.7% from January to \$251.2 bln, led by a fall in sales of natural gas. Meanwhile, imports were down -1.5% to \$321.7 bln, due to lower purchases of cell phones, pharmaceutical preparations. The deficit with China increased \$3.2 bln to \$25.2 bln as exports decreased \$1.4 bln to \$13.1 bln and imports increased \$1.8 bln to \$38.2 bln.

The **ISM Services PMI** fell to 51.2 in March of 2023 from 55.1 in February and well below forecasts of 54.5. The reading pointed to the slowest growth in the services sector in three months. In March, there was a slowdown in business activity (55.4 vs 56.3), new orders (52.2 vs 62.6) and employment (51.3 vs 54) while backlog of orders moved to contraction (48.5 vs 52.8). While price pressures were still growing (>50) they were the lowest since September 2020 (59.5 vs 65.6).

The **unemployment rate in the United States** edged down to 3.5% in March, against expectations that it would hold at 3.6%. The number of unemployed people decreased by 97 thousand to 5.839 million and employment levels rose by 577 thousand to 160.892 million. Meanwhile, the labor force participation rate edged up to 62.6% in March from 62.5% in February, the highest since March 2020.

Average hourly earnings for all employees on US private nonfarm payrolls increased by 4.2% year-on-year in March, down from 4.6% in the prior month and slightly below market forecasts of a 4.3% rise. It was the smallest increase in annual average hourly earnings since June 2021. Total wages in the United States increased 7.28% in February over the same month in the previous year.



China's annual inflation rate unexpectedly came in at 0.7% p.a. in March, compared with February's print and market consensus of 1.0% p.a. This was the lowest figure since September 2021, as cost of both food and non-food eased further on the back of an uneven economic recovery after the removal of zero-COVID policy. Food inflation fell to a 10-month low (2.4% vs 2.6% in Feb), due to a steep drop in cost of fresh vegetables and despite a faster rise in pork prices. Also, non-food prices continued to ease (0.3% vs 0.6%), linked to further declines in cost of transport (-1.9% vs 0.1%) and housing (-0.3% vs -0.1%). Core consumer prices, excluding the volatile prices of food and energy, went up slightly to 0.7% yoy, after a 0.6% gain in February.

Fixed Income, Commodities and Currency Markets

Australia Yield Curve / Bi-Weekly Change

Date	2 Yr	3 Yr	5 Yr	10 Yr
Friday 31/03/2023	2.97	2.94	3.03	3.30
Thursday 13/04/2023	2.97	2.94	3.02	3.27
Change	0.00	0.00	0.01	0.03

Source: RBA, accessed 14/04/2023

- Australian yields rose remained stable across the yield curve. The RBA maintaining the official cash rate steady at 3.6% was widely anticipated and had negligible impact across the curve.
- “The decision to hold interest rates steady this month provides the board with more time to assess the state of the economy and the outlook in an environment of considerable uncertainty,” Governor Philip Lowe said in a statement. He added that economic growth has slowed and is projected to be below trend over the next couple of years.

U.S. Yield Curve / Bi-Weekly Change

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
Friday 31/03/2023	4.74	4.79	4.85	4.97	4.94	4.64	4.06	3.81	3.60	3.55	3.48	3.81	3.67
Thursday 13/04/2023	4.08	4.96	5.10	5.10	4.95	4.66	3.96	3.70	3.51	3.48	3.45	3.80	3.69
Change	-0.66	0.17	0.25	0.13	0.01	0.02	-0.10	-0.11	-0.09	-0.07	-0.03	-0.01	0.02

Source: U.S. Department of the Treasury, accessed 14/04/2023

- U.S. treasury yields consolidated at the short end of the yield curve and eased slightly at the longer (2+) end of the curve.
- The market has digested the recent increase in the Federal Reserve Cash Rate by 0.25% to 5.0% and the launch of the Bank Term Funding Program (BTFP) in March and accept that the Federal Reserve has sufficient and separate tools to deal with illiquidity in the US Regional banking Sector (BTFP) and maintain vigilance against inflation (official cash rates).
- Longer term yields continue to indicate that the market believes the Federal Reserve is being too aggressive and will have to cut rates in the second half, while the short-term rates accept that the Federal Reserve is committed to bringing inflation down and may raise again before the second half of the year.
- The outlier of the data is the 1-month treasury yield. This has been whip-sawed around over the last 2 months, coming from a recent high of 4.83% on 8 March prior to the collapse of Silicon Valley Bank to 4.07% on 21 March after the 3rd regional bank collapse back to 4.74% at end of March as contagion fears were eased back down to last night’s print of 4.08% due to the biggest decline in wholesale priced (PPI) in almost three years.

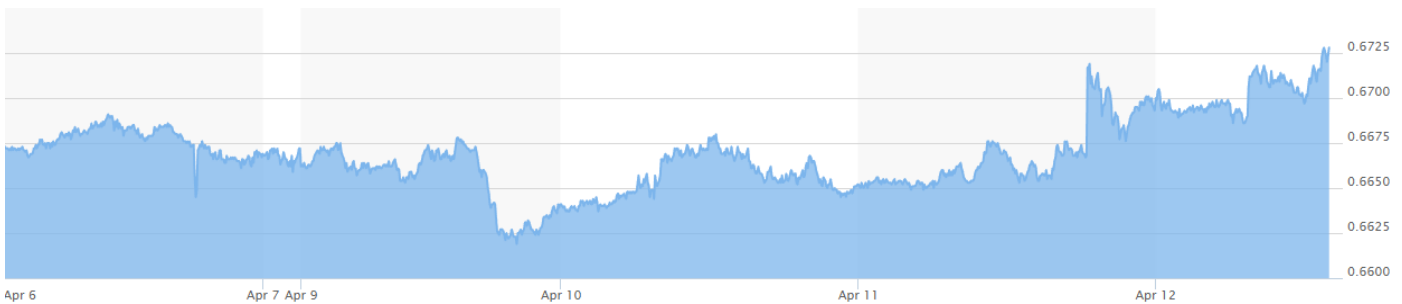
USD / DXY: 100.85, -1.66 (-1.62%)



Source: MarketWatch, accessed 31/03/2023

- In FX, based on the DXY Index, the USD continued to weaken another 1.6% post the collapse of the 3 US regional banks
- Market expectations are that the outcome of the banking challenges will be a reduced availability of credit which will weigh upon the US economy. This is expected to reduce the need for the Federal Reserve to increase rates as much as previously expected only a couple of months ago. This combined with generally less inflationary economic data, especially in the US PPI data on 13 April, has eased expectations of the level and length of the positive interest rate differential relative to its trading partners.

AUD vs USD: 0.6727, +0.0053 (+0.81%)



Source: MarketWatch, accessed 13/04/2023

- The Australian dollar rose slightly over the course of the week, after easing into the RBA decision to hold rates steady last week.
- The reduction in oil production by OPEC + and the expected stimulus from China following the anaemic 0.7% p.a. inflation print are tailwinds for the AUD, however, the interest rate differential relative to the US and the undervalued Euro and Pound are headwinds for the AUD.
- Given the exposure to commodities the AUD does well during global growth or “risk on” periods however, during global economic concerns the USD benefits from its safe haven status.

Equity Markets

U.S. - S&P 500

4,146.22

+65.07 (1.59%) ↑ past 5 days

13 Apr, 4:56 pm GMT-4 • Disclaimer

✓ Following

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Source: Google.com, accessed 31/03/2023

- The S&P 500 gained a solid 1.6% this week with solid gains following the easing in the Producer Price Indices Thursday night Australian Eastern Standard Time.
- The best performing sectors were Materials and Industrials, up +2.6% and +2.2% respectively. Financials (+2.1%) and Communication Services (+2.0%) were also beneficiaries from the softer PPI numbers.
- The worst performing sectors for the week were Utilities (-0.08%), the only negative returning sector for the 5 days, and Real Estate which was up +0.6%

Australia - S&P/ASX 200

7,324.10

+88.10 (1.22%) ↑ past 5 days

13 Apr, 4:48 pm AEST • Disclaimer

✓ Following

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



Open	7,343.90	Low	7,312.80	52-wk high	7,624.80
High	7,345.90	Prev close	7,343.90	52-wk low	6,407.00

Source: Google.com, accessed 31/03/2023

- The Australian market (S&P/ASX 200) consolidated over the last 5 days rising 1.2%. The best sectors within the index for the week to midday Friday were Materials and Information Technology rising +3.1% and 3.0% respectively. The worst performing sector for the week was Utilities, which barely produced a positive return (+0.02%)

Market Movements

Movers during the week (S&P/ASX 200)

ASX Code	Company Name	Friday price (\$)	Week ago close (\$)	Week Δ (%)	Month ago close (\$)	Month Δ (%)	Quarter ago close (\$)	Quarter Δ (%)	Year ago close (\$)	Year Δ (%)
NIC	Nickel Industries Limited	0.97	0.85	14.5	0.88	9.9	1.11	-12.8	1.26	-22.9
CTD	Corporate Travel Management Limited	21.37	18.72	14.2	17.16	24.5	16.66	28.3	24.86	-14.0
LLC	Lendlease Group	8.33	7.39	12.7	6.99	19.2	8.34	-0.1	11.34	-26.5
NXT	Nextdc Limited	12.16	10.87	11.9	10.05	21.0	9.41	29.2	11.17	8.9
RRL	Regis Resources Limited	2.45	2.20	11.1	1.79	36.6	2.25	8.7	2.39	2.3
SFR	Sandfire Resources Ltd	6.97	6.29	10.8	5.56	25.4	6.20	12.4	5.53	26.0
PDN	Paladin Energy Ltd	0.66	0.60	10.4	0.62	6.9	0.78	-15.1	0.97	-31.3
DOW	Downer EDI Limited	3.54	3.23	9.4	3.23	9.4	3.93	-10.1	5.44	-35.0
CNI	Centuria Capital Group	1.66	1.52	9.0	1.59	4.2	1.85	-10.2	2.76	-39.9
AWC	Alumina Limited	1.60	1.47	8.8	1.42	12.7	1.67	-4.2	1.92	-16.7

Shakers during the week (S&P/ASX 200)

ASX Code	Company Name	Friday price (\$)	Week ago close (\$)	Week Δ (%)	Month ago close (\$)	Month Δ (%)	Quarter ago close (\$)	Quarter Δ (%)	Year ago close (\$)	Year Δ (%)
IMU	Imugene Ltd	0.14	0.15	-10.0	0.13	8.0	0.16	-15.6	0.22	-37.2
SGR	Star Entertainment Group Ltd	1.34	1.41	-5.1	1.44	-7.1	1.78	-24.8	2.88	-53.6
SQ2	Block, Inc. Chess Depository Interests	95.70	100.40	-4.7	104.32	-8.3	103.01	-7.1	168.15	-43.1
LKE	Lake Resources N.L.	0.44	0.46	-2.7	0.54	-18.1	0.83	-46.4	2.01	-78.0
TLC	Lottery Corporation Limited	5.02	5.16	-2.7	5.12	-2.0	4.84	3.7	-	-
PNV	Polynovo Limited	1.80	1.85	-2.7	2.14	-16.1	2.54	-29.3	1.11	61.7
GUD	G.U.D. Holdings Limited	9.51	9.75	-2.5	9.22	3.1	8.18	16.3	12.26	-22.4
AIA	Auckland International Airport Limited	7.95	8.14	-2.3	8.04	-1.1	7.55	5.3	7.03	13.1
MFG	Magellan Financial Group Ltd	7.80	7.97	-2.1	7.90	-1.3	9.38	-16.8	16.34	-52.3
ALX	Atlas Arteria	6.25	6.38	-2.1	6.76	-7.6	6.78	-7.9	6.20	0.6

Source: FactSet

Diary of events for the week ahead*

Monday, 17 April

Inflation Rate YoY Final MAR – Italy

Tuesday, 18 April

RBA Meeting Minutes – Aust
GDP Growth Rate YoY Q1 – China
Industrial Production YoY MAR – China
Unemployment Rate MAR – China
Unemployment Rate FEB – UK
Inflation Rate YoY MAR – Canada
ZEW Economic Sentiment Index APR – Germany

Wednesday, 19 April

Inflation Rate YoY MAR – UK
Inflation Rate YoY Final MAR – Eurozone

Thursday, 20 April

Balance of Trade MAR – Japan

Friday, 21 April

Judo Bank Services PMI Flash APR – Aust
Judo Bank Manufacturing PMI Flash APR – Aust

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