WEEKLY UPDATE

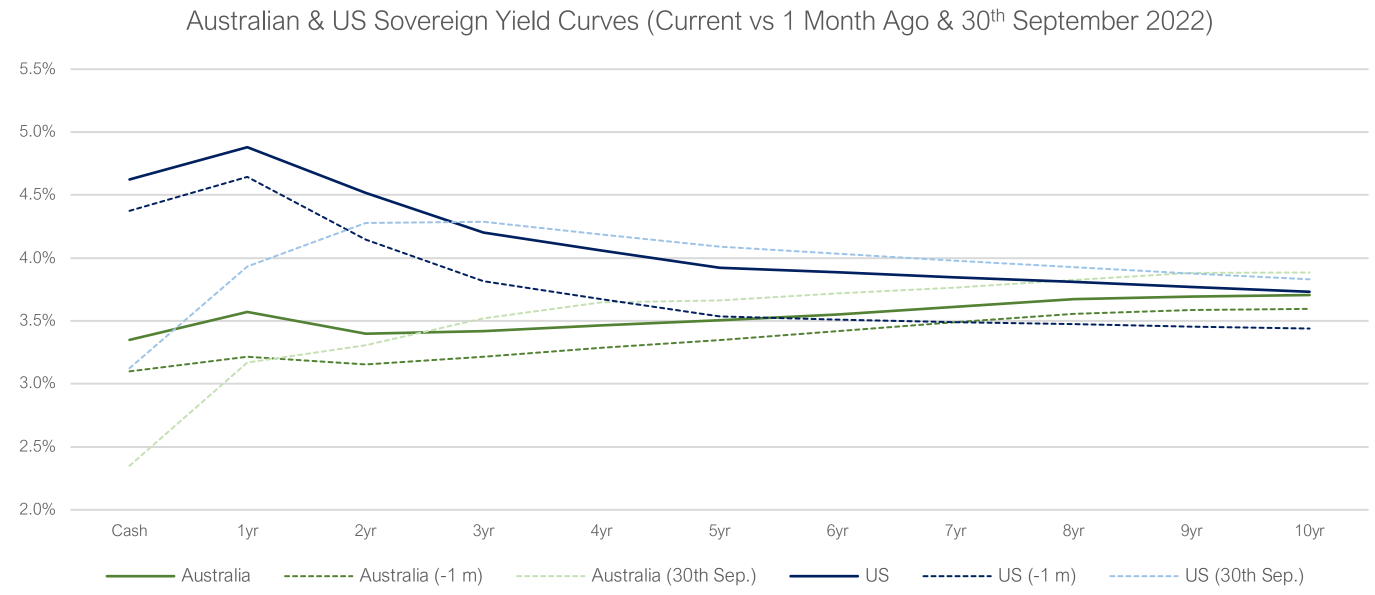
13th FEBUARY 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	88,910	-1.72%	4.18%	7.15%
MSCI World Ex-Aus. (Unhedged)	13,931	-0.51%	0.96%	-3.75%
MSCI World Ex-Aus. (Hedged)	2,299	-1.08%	3.01%	-7.01%
Bloomberg AusBond 0+ Composite	9,568	-1.71%	1.15%	-5.90%
BloombergBarclays Global Agg. (Hedged)	974	-1.11%	1.26%	-8.31%
S&P/ASX300 Property	60,480	-5.66%	4.40%	-4.92%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,684	-2.08%	3.77%	-12.07%
S&P Global Infrastructure (Hedged)	5,974	-0.61%	2.53%	3.27%
Bloomberg All Hedge Fund Index	1,964	N/A	-5.84%	-1.66%
VIX	20.5	12.00%	-8.84%	-24.96%
Bloomberg Commodity Index (USD)	108.68	1.50%	-7.02%	-1.11%
Iron Ore Index (62% Fe Aus. Off. China, USD)	126.00	-0.79%	42.37%	-17.38%
LME Copper Spot (USD)	8,905.00	-1.71%	10.42%	-12.87%
Coal 1st Future (Newcastle Export, USD)	226.10	-4.19%	-30.27%	-5.44%
Brent Crude 1st Future (USD)	86.39	8.07%	-7.77%	-5.49%
LNG 1st Future (Japan/Korea)	17.99	-2.91%	-34.71%	-27.47%
Gold in AUD	2,697	0.12%	1.69%	5.81%
AUDUSD	0.6917	-0.09%	4.50%	-3.49%
AUDEUR	0.6480	1.03%	-0.06%	3.21%
AUDNZD	1.0971	0.27%	-0.14%	2.10%
AUDGBP	0.5738	-0.09%	1.53%	7.89%
AUDJPY	90.9060	0.09%	-2.64%	8.54%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 12th February 2023

Interest rate rises dominated last week's market action. Yield curves moved sharply higher last week for several reasons, including Russian oil production cuts, a new governor at the Bank of Japan, and upside risk to this week's American CPI report.

In Australia, the RBA raised the cash rate by +0.25%, indicating that more would follow, as inflation is forecast to remain higher in 2023 than previously anticipated.



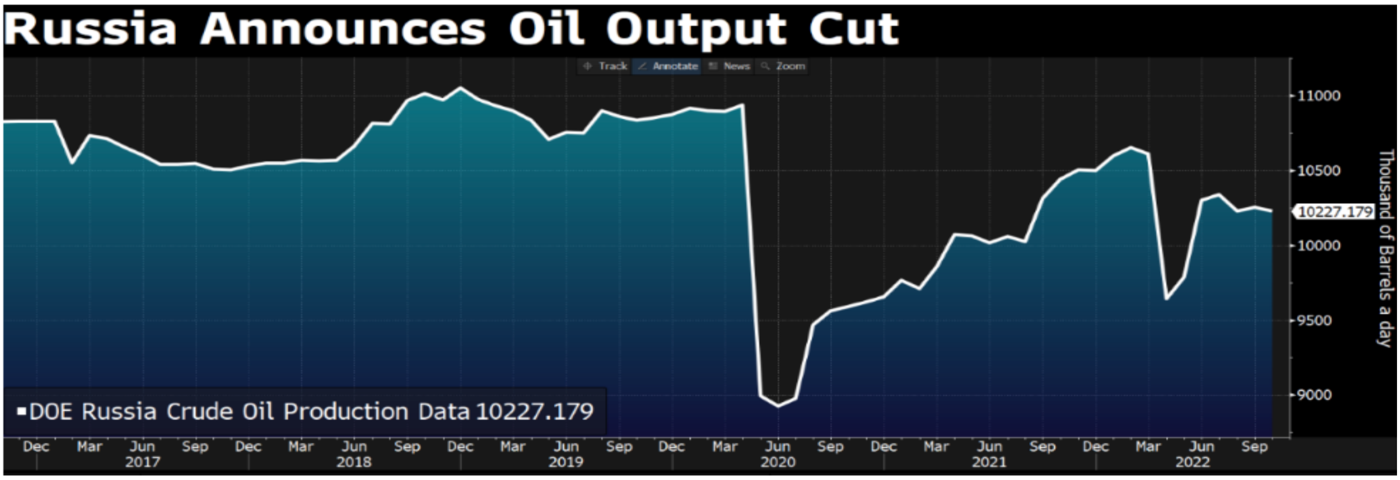
Source: Bloomberg, 12th February 2022

Last week's market action was dominated by interest rate rises. The RBA raised the cash rate by +0.25% to 3.35%, indicating that further increases would follow. However, this was part of a global shift higher in bond yields that resulted in sharp declines for the property sector and perhaps ended the relative rebound of the technology sector.

There were several reasons for the rise in yields. Investors continued to process the recent strong American jobs and ISM services reports, aided by a parade of Federal Reserve official appearances promising higher-for-longer interest rates. Chair Jerome Powell said in an interview that "[the labour report] *underscored the message that I was sending at the press conference and in the meeting that we have a significant road ahead to get inflation down to 2%. I think there's been an expectation that it will go away quickly and painlessly, and I don't think that's at all guaranteed. That's not the base case. The base case is that it will take some time, that we'll have to do more rate increases and then we'll see whether we've done enough*".

President Biden also delivered his State of the Union speech, which, although conciliatory with the Republicans on the surface, indicated that fiscal expansion would continue. He promised to veto any attempt to cut Medicaid and social security benefits and to proceed with large-scale infrastructure investment. He also pledged to fund some of the spending by increasing taxes on the wealthy and big corporations, and promised to quadruple the tax on share buybacks to make them unattractive.

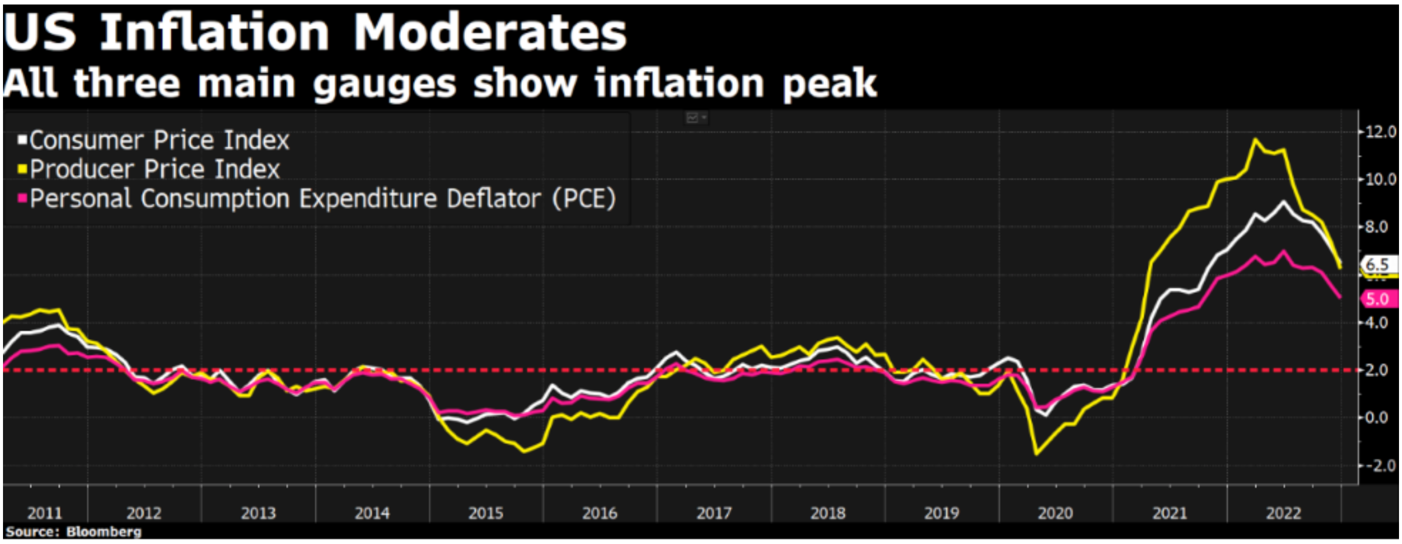
On Friday, Russia added further inflationary pressure, announcing that it would make good on its threat to cut global oil supply in response to the oil price cap imposed by the G7, the European Union and Australia last December. It will reduce production by -500k barrels per day from March.



According to figures compiled by the EIA, the amount represents around -0.5% of 2022 daily demand. The cut comes as China is expected to increase demand for oil in 2023 as the economy reopens. As a result, Brent crude rallied by +8.1% over the week.

Shorter-term, this week's January CPI figure is expected to rise from last month's upwardly revised +0.1% to +0.5%. However, many economists see further upside risk to that figure as the BLS undergoes a calculation adjustment that is likely to see a higher proportion of services in the CPI basket.

The market-implied peak of the US policy rate is now more reflective of the Fed officials' outlook. The peak is priced at 5.2% from June, up from 4.9% at the beginning of the month. The 2yr Treasury yield has also increased from 4.1% to 4.5% over the same period, while the 10yr has risen from 3.4% to 3.7%. According to the Bloomberg chart below, all three main gauges of inflation appear to have peaked, with conditions appearing to be easing.



It's not just the US curve and oil prices placing upward pressure on global yields. A new governor of the Bank of Japan is also set to be named after the dovish frontrunner and current Deputy Governor, Masayoshi Amamiya, reportedly turned down the job. Current Governor Haruhiko Kuroda is due to step down on April 8th. He will likely be replaced by 71-year-old Kazuo Ueda, an economist and former Bank of Japan Policy Board member. He is expected to steer policy gradually towards normalisation, the first steps of which are likely to be further loosening yield curve control. The Bank of Japan surprised the market by widening the permitted fluctuation of the 10yr yield on Japanese government bonds from +/- 0.25% to +/- 0.50% just before Christmas. Since then, the yield has settled at 0.50%, precisely on the upper bound, as national headline CPI has risen to +4.0% yoy, well above the 2% target.

Elsewhere, central banks that had previously suggested that they may be close to pausing are seeing renewed pressure to raise rates. For example, the Bank of Canada was expected to hold around 4.50% for several months. As new jobs growth is significantly exceeding forecasts, the market is now expecting one or two more +0.25% increases this year,

Similarly, the RBA had been among the first central banks to slow the pace of rate rises to +0.25% per month last October. However, the updated forecasts in the Statement on Monetary Policy (see table below) show higher wage growth and inflation remaining higher than previously envisaged, despite rising unemployment. The market is pricing a new peak of 4.1% from June, the highest pricing since September last year, and implying three more +0.25% increases.

In the equity market, Australian earnings reports are slightly behind estimates but are ahead of global peers. 54 of 292 S&P/ASX300 companies have reported half-yearly growth of +6.9% in aggregate so far, according to Bloomberg. This compares to compound growth rates of +1.7% for the S&P500 and -17.1% for the S&P Global 1200 over the last two quarters. AGL shares nevertheless dropped -9.8% over the week as it missed estimates, while Newcrest rose +9.8% following an all-scrip bid from the American gold miner Newmont.

Overseas, Credit Suisse posted a massive loss of CHF -1.4 billion, described as "*completely unacceptable*" by CEO Ulrich Koerner. The full-year loss of CHF -7.3 billion was worse than analysts' estimates and has reignited concerns over the future of the bank, which experienced large outflows from its wealth management division. The bank previously posted considerable losses in 2021 related to the collapses of Archegos Capital Management and Greensill Capital, vowing to focus on wealth management at the time. The share price fell by -13.6% last week to CHF 2.87. The stock traded as high as CHF 83.19 in 2007 but has been steadily declining since the global financial crisis.

As well as more earnings results and the critical US CPI number this week, there will also be Australian business and consumer confidence on Tuesday and January employment figures on Thursday. The Australian unemployment rate is expected to remain at 3.5% with an expected 20K of new jobs added. The US also releases industrial production and retail sales data, which will be closely followed for signs of recession.

Australian earnings results pick up in earnest this week. Results that will be of particular interest will be JB Hi Fi reporting today which will be interesting guide to how the consumer is handling the multitude of interest rate rises and any influence on consumer spending. Tuesday sees ASX bellwether CSL report alongside other key names Ansell, Challenger, Computershare and James Hardie. Wednesday we have CBA, Wesfarmers and Fortescue. Thursday sees a host of companies drop there numbers, amongst the bigger names, Telstra, NAB, Newcrest, Origin, Sonic. Friday rounds off the week with Westpac.

If you would like a full reporting calendar please let me know.

RBA February 2023 Forecasts

Percentage change over year to quarter shown

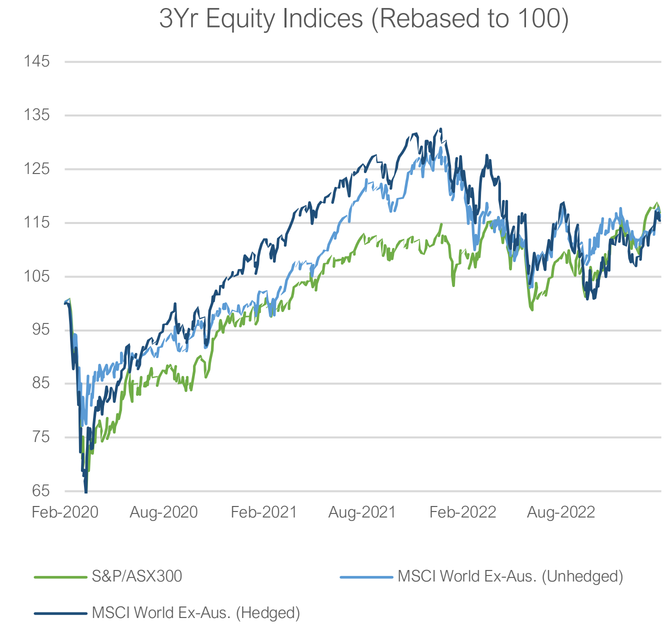
	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024	Jun 2025
Gross domestic product	2.7	2.3	1.6	1.4	1.6	1.7
Household consumption	5.5	2.5	1.7	1.7	1.8	2.0
Dwelling investment	−0.9	3.4	−1.3	−4.8	−5.7	−4.3
Business investment	3.6	3.1	3.7	3.6	3.0	2.6
Public demand	3.1	0.3	0.1	1.7	2.4	1.6
Gross national expenditure	2.8	1.5	2.0	1.6	1.6	1.6
Imports	14.0	5.6	6.5	3.0	2.4	1.8
Exports	10.2	8.8	4.2	2.1	2.3	2.4
Real household disposable income	−1.7	−0.9	−0.1	0.4	1.9	3.1
Terms of trade	4.6	−6.8	−3.3	−7.8	−6.4	−4.0
Major trading partner (export-weighted) GDP	2.3	4.1	3.9	3.6	3.3	3.6
Unemployment rate (quarterly, %)	3.5	3.6	3.8	4.1	4.3	4.4
Employment	4.8	2.4	1.5	1.0	1.0	1.1
Wage price index	3.5	4.1	4.2	4.1	4.0	3.8
Nominal (non-farm) average earnings per hour	4.7	6.8	5.4	4.8	4.5	4.1
Trimmed mean inflation	6.9	6.2	4.3	3.3	3.1	2.9
Consumer price index	7.8	6.7	4.8	3.6	3.2	3.0

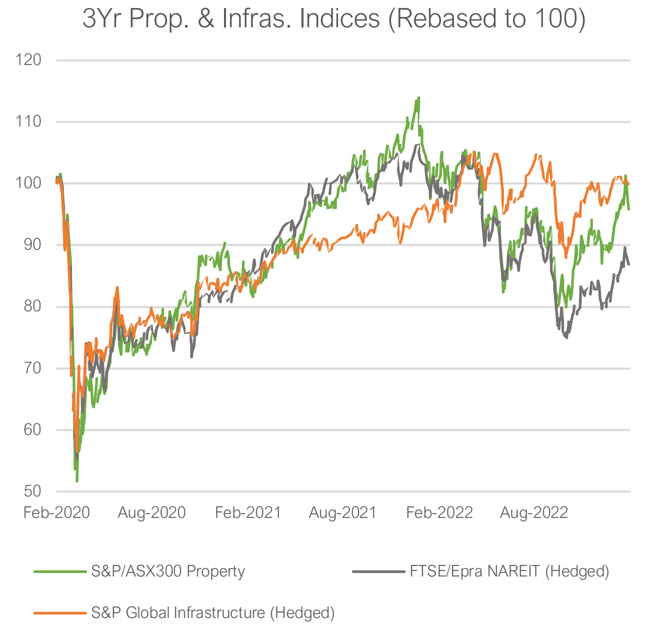
(a) Forecasts finalised on 8 February. The forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. Other forecast assumptions: TWI at 62; A$ at US$0.69; Brent crude oil price at US$82bbl. The rate of population growth is assumed to be in line with its pre-pandemic average.
(b) Forecasts are rounded to the first decimal point. Shading indicates historical data.

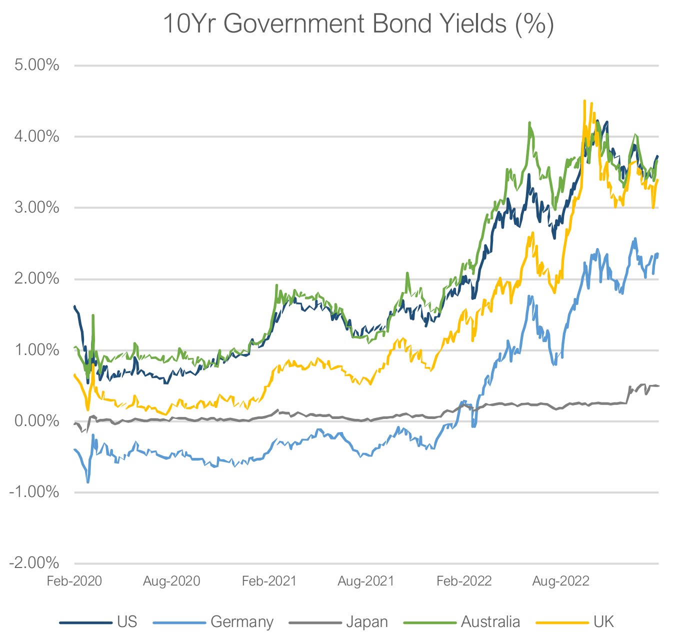
Sources: ABS; CEIC Data; Consensus Economics; Refinitiv; RBA

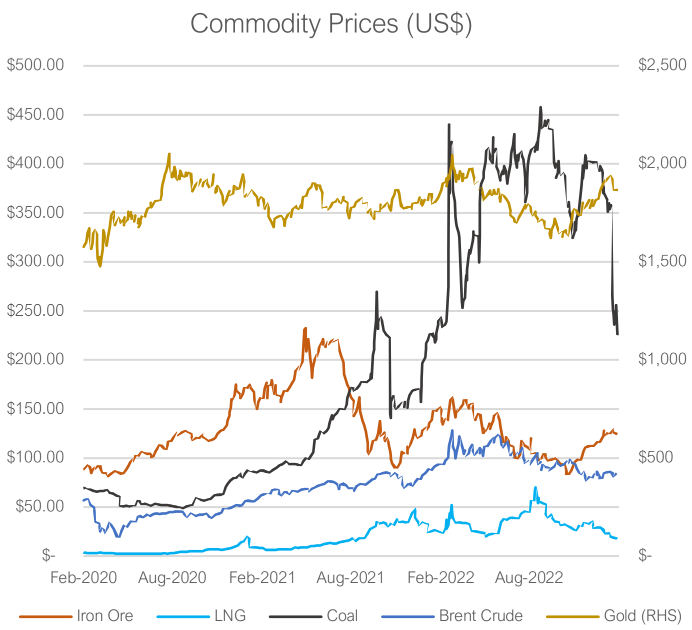
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		**NAB Bus. Survey; Westpac Cons. Conf.**		**Employment; CBA Household Spending;** Consumer Infl. Exp.	
US		**CPI; NFIB Small Bus. Opt.; Real Ave. Hourly & Weekly Earnings**	**Retail Sales; Ind. Prod.; Empire Manuf. Survey;** NAHB Housing Market Index; TIC Flows; MBA Mortgage Apps	**PPI; Building Permits; Housing Starts; Philly Fed. Bus. Outlook;** Weekly Jobless Claims	**Leading Index;** Import/Export Prices
Europe	**Swiss CPI;** Swedish House Prices	**EZ, Danish, Dutch & Finnish GDP; UK, Swedish PES & French Unempl.; Swiss PPI; German Wsale Prices** Dutch Trade	**EZ Ind. Production; EZ, Norwegian & Irish Trade; UK & Spanish CPI; UK & Danish PPI;** UK House Prices; Irish Property Prices	**ECB Economic Bulletin;** Irish CPI; Spanish & Italian Trade; Dutch Unemployment	**ECB & Italian Curr. Acc.; UK Retail Sales; German PPI; Swedish Unempl.;** French CPI;
Japan		**GDP; Industrial Prod.;**	Tertiary Industry Index	**Trade;** Core Machine Orders; Tokyo Condos. For Sale	
China			**1yr Med. Term Lending**	**New Home Prices**	









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