Xtra-Ordinary Opportunities

WEEKLY UPDATE

20th MARCH 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	84,751	-2.08%	1.06%	-0.31%
MSCI World Ex-Aus. (Unhedged)	13,810	-0.77%	2.56%	-0.72%
MSCI World Ex-Aus. (Hedged)	2,201	-0.04%	2.57%	-10.75%
Bloomberg AusBond 0+ Composite	9,746	0.95%	1.34%	-2.26%
BloombergBarclays Global Agg. (Hedged)	985	1.38%	1.67%	-5.99%
S&P/ASX300 Property	57,963	-2.25%	5.25%	-11.20%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,429	-1.32%	-1.33%	-22.44%
S&P Global Infrastructure (Hedged)	5,823	-0.58%	1.13%	-1.44%
Bloomberg All Hedge Fund Index	2,046	N/A	1.25%	5.46%
VIX	25.5	2.86%	18.76%	6.87%
Bloomberg Commodity Index (USD)	102.59	-1.87%	-8.32%	-16.83%
Iron Ore Index (62% Fe Aus. Off. China, USD)	132.50	1.15%	17.78%	-9.56%
LME Copper Spot (USD)	8,621.00	-1.53%	4.73%	-15.20%
Coal 1st Future (Newcastle Export, USD)	173.00	-6.61%	-57.07%	-48.70%
Brent Crude 1st Future (USD)	72.97	-11.85%	-7.68%	-31.57%
LNG 1st Future (Japan/Korea)	13.18	-6.89%	-62.95%	-62.93%
Gold in AUD	2,970	4.62%	11.33%	12.77%
AUDUSD	0.6697	1.78%	-0.04%	-9.21%
AUDEUR	0.6281	1.51%	-0.57%	-5.86%
AUDNZD	1.0695	-0.36%	1.61%	-0.22%
AUDGBP	0.5500	0.55%	-0.26%	-1.99%
AUDJPY	88.3100	-0.58%	-3.88%	0.94%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 19th March 2023

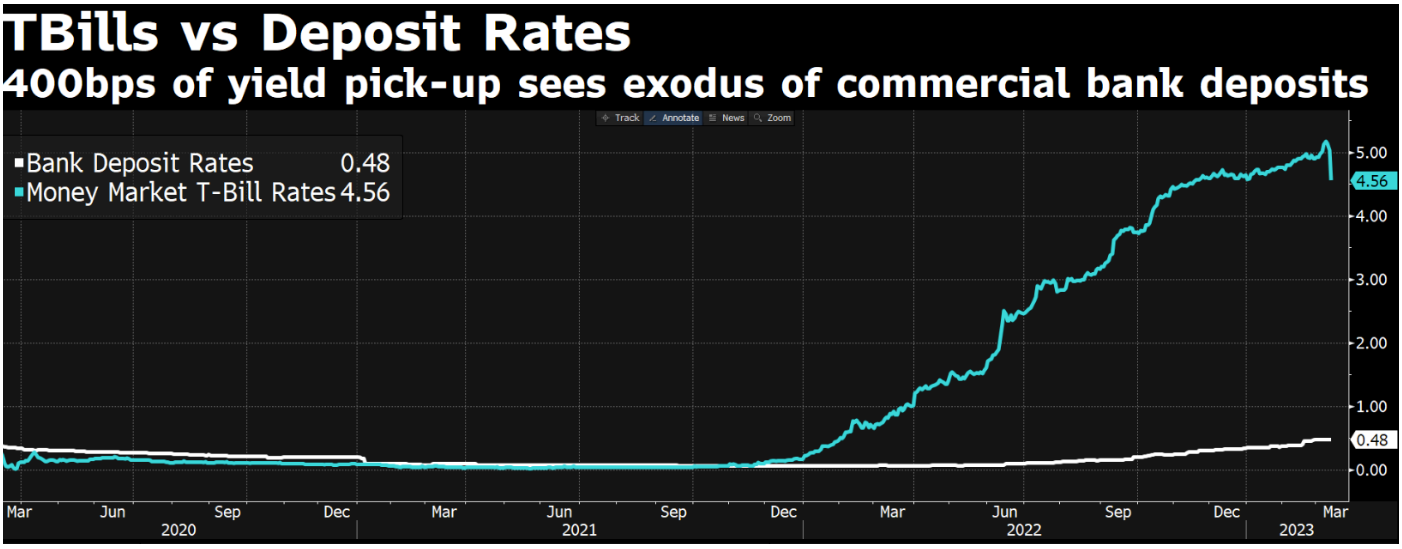
Market volatility persisted last week as more banks saw their viability questioned. Safe havens continued to attract flows.

The ECB went ahead with the anticipated +0.5% rate rise while signalling a willingness to provide liquidity if necessary.

This week, other central banks, including the Federal Reserve, are expected to follow the playbook of high interest rates to combat inflation, coupled with additional liquidity to support banks.

Source: Bloomberg, 19th March 2023

The volatility caused by banking sector troubles continued this week, despite swift intervention from policymakers. Bond yields remained near the lows and gold was up +6.5% in US dollar terms as investors sought safe havens outside US bank deposits. Government bonds rallied significantly, while credit spreads widened as the market began to price the risk that tighter credit conditions would hasten a recession.



Source: Bloomberg

UBS Group AG agreed to buy Credit Suisse for $US3.3 billion in a government-brokered deal aimed at containing a crisis of confidence that was spreading across global financial markets. The 167-year-old Credit Suisse Group is systemically important being identified as too big to fail amongst the global top 30 banks. The merger includes the write-down to zero of CHF 16 billion (US$ 17 billion) of outstanding Credit Suisse bonds. The Swiss central bank has provided Credit Suisse and UBS with additional liquidity facilities.

The combination is expected to create a business with more than US$ 5 trillion in total invested assets.

The US Federal Reserve also issued the following press release:

"**Coordinated central bank action to enhance the provision of U.S. dollar liquidity**
The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank are today announcing a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements.

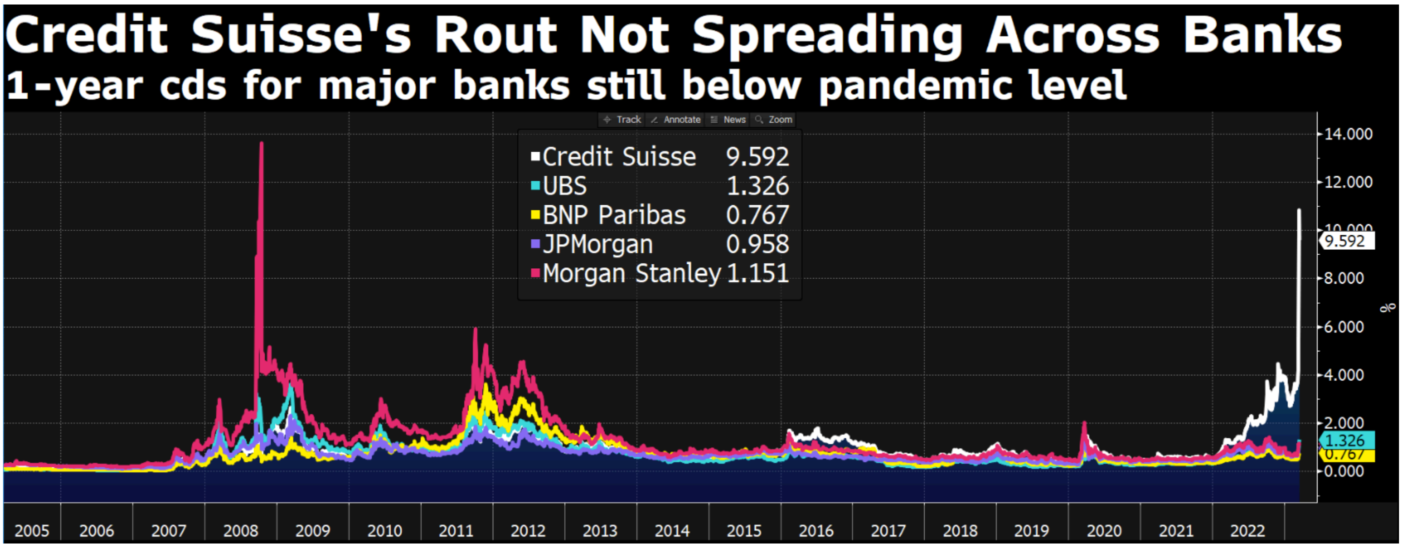
To improve the swap lines' effectiveness in providing U.S. dollar funding, the central banks currently offering U.S. dollar operations have agreed to increase the frequency of 7-day maturity operations from weekly to daily. These daily operations will commence on Monday, March 20, 2023, and will continue at least through the end of April. The network of swap lines among these central banks is a set of available *standing facilities and serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses."*

Last weekend, the FDIC took over Silicon Valley Bank and Signature Bank, guaranteeing deposits in an effort to prevent a bank run. If a broader run occurred, more banks would be forced to recognise losses on bond holdings and risk a series of banking insolvencies.

Despite the swift intervention, the KBW index of regional bank stocks lost more than -10% in value for the second consecutive week as investors continued to worry about contagion effects. Shares in the Californian lender, First Republic Bank, were down more than -70% over the week, even after eleven larger peers placed $30 billion in deposits to avoid a collapse.

On Friday, the parent of Silicon Valley Bank, SVB Financial Group, filed for Chapter 11 bankruptcy protection. Regulators are seeking a buyer for the assets of the banks. HSBC has already acquired the UK subsidiary of SVB for £1, guaranteeing all deposits. American regulators are willing to consider the prospect of the government backstopping losses at Silicon Valley Bank and Signature Bank if it helps push through a sale, the Financial Times reported on Friday.

However, apart from the already-troubled Credit Suisse, there has been little evidence of contagion outside the US. Moreover, banks are less highly leveraged and have stronger balance sheets than in 2008 because of the regulatory reforms that followed the global financial crisis.



Source: Bloomberg

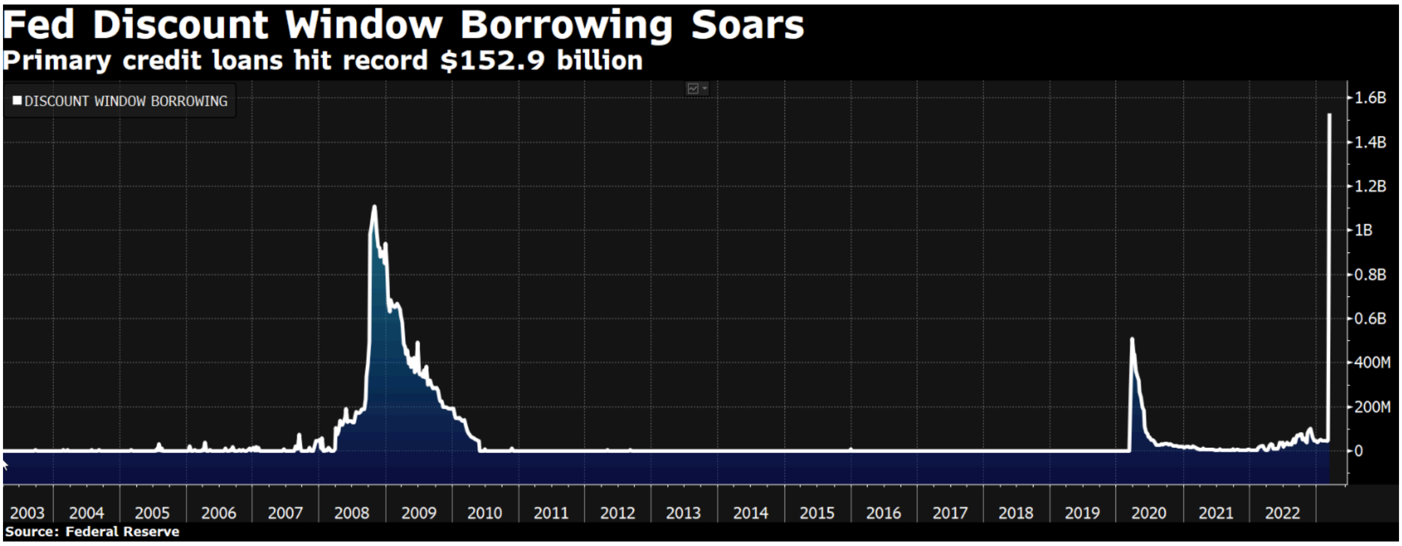
In further developments, several large US banks deposited $US30 billion into First Republic Bank (FRC). Ratings agency S&P Global on Sunday downgraded FRC deeper into junk status, which indicated the deposit infusion may not solve its liquidity issues.

The regional American banks appear more vulnerable due to the larger increase in bond yields compared to other currencies and the relatively lax supervision of banks with less than US$250 billion in assets. Congress had deemed lenders under this threshold not to be systematically important since 2018. Critically, the Federal Reserve had relaxed the liquidity coverage ratio requirements for banks with assets under $250 billion. A lack of liquidity to satisfy withdrawals ultimately precipitated the collapse of both SVB and Signature.

Consequently, the response by authorities so far has focussed on liquidity, usually in the form of loans, while leaving the bank, or its acquirers, on the hook for the unrecognised balance sheet losses. That isn’t necessarily problematic since, as long as the bank remains liquid, the losses will be amortised away over time. This functions like depreciation in reverse. As the bonds near maturity, the value of the bond is steadily revised *upwards* towards par. Time is a healer when it comes to bank balance sheets.

US banks borrowed $US165 billion from the Federal Reserve last week after the failure of SVB and Signature Bank ($153 billion borrowed through the Fed's emergency loan program and another $11.9 billion borrowed via the bank term program established by the central bank). The loan program was set-up to ensure banks would not be forced to sell assets if depositors moved to withdraw funds. Under the program banks have the ability to lend bonds to the Fed at par value in exchange for cash enabling banks to fulfil client's withdrawal requests.

The Fed's total balance sheet rose by $US297 billion last week to $US8.64 trillion.



Source: Bloomberg

On Thursday, the European Central Bank explicitly said that inflation and financial stability issues are seen as entirely separate. It raised the policy rate by +0.5% to 3.0%, while President Lagarde said it was ready to provide more liquidity to troubled institutions if necessary.

Source: Bloomberg

The Federal Reserve will meet on Wednesday this week and is expected to follow the line adopted by the ECB. Last weekend it created a new Bank Term Funding Program (BTFP) where banks could receive liquidity against the full par value of government bonds and other qualifying securities, even if the bonds have a much lower market value.

Following a slightly higher-than-expected core CPI reading last week, it is expected to go ahead with a +0.25% increase in Fed Funds to a target range of 4.75%-5.0%. There is, however, a relatively high degree of uncertainty due to the tightening in credit conditions and given that the two-week media blackout period that precedes every meeting began just before the collapse of SVB and Signature.

Current bond yields would suggest that the global economy is about to hit a brick wall. However, substantial evidence of an unwinding in short positions and a dash for safe havens suggest that the pricing shouldn't be interpreted as entirely predictive. The recent turbulence will likely pass as faith in bank liquidity is restored. Bond yields may then move higher to reflect stickier inflation.

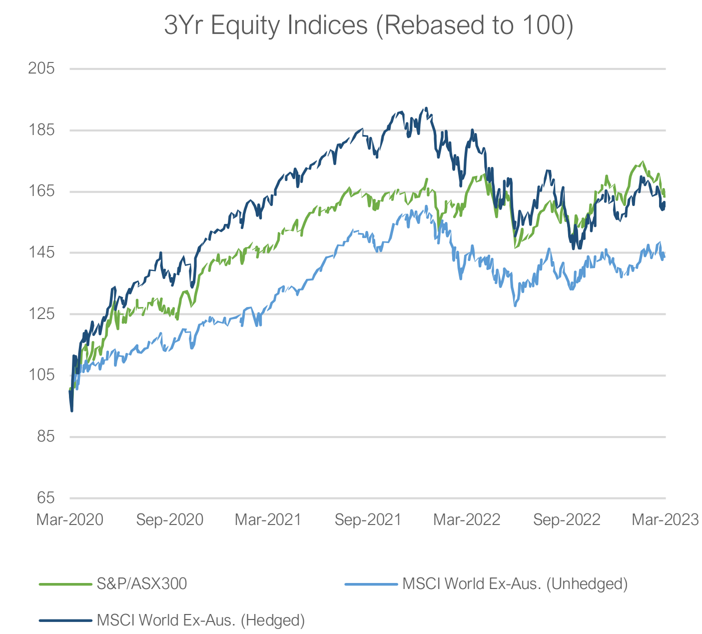
Nevertheless, last week's data did not show signs of a reacceleration in growth. Chinese February industrial production (+2.4% ytd yoy) missed estimates. US industrial production and core retail sales were unchanged compared to January. The NAB business survey suggested that Australian companies are experiencing a squeeze in profit margins. At the same time, the widely anticipated pick-up in February employment merely returned the headline jobless rate to December levels (3.5%).

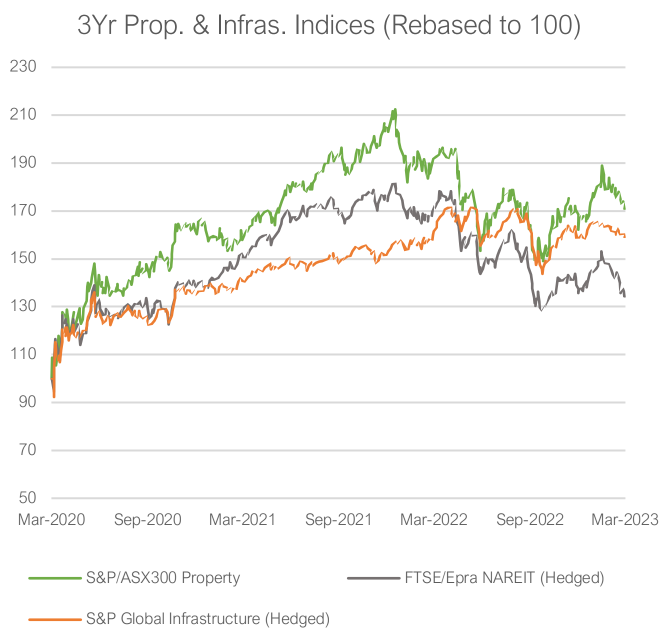
Geopolitical tensions also remained elevated. China and Russia were displeased by the announced AUKUS submarine plans, while a Russian jet harassed an American drone over international waters, causing it to crash. Xi Jinping is scheduled to visit Moscow this week. The International Criminal Court (ICC) issued an arrest warrant for Russian leader Vladimir Putin for alleged war crimes.

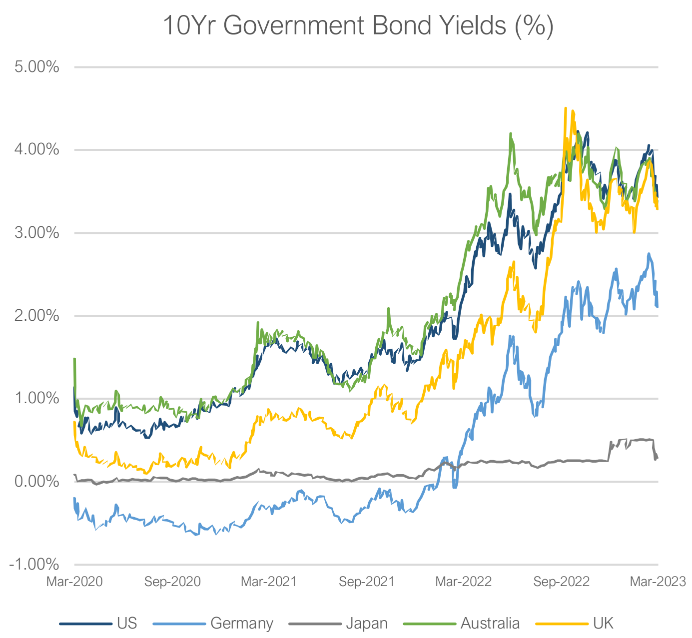
Besides the Federal Reserve meeting this week, there will be rate decisions from the central banks of the UK, China, Switzerland and Norway. In addition, the RBA March minutes will be out on Tuesday, and the latest flash PMI surveys will be published on Friday, together with Japanese CPI figures.

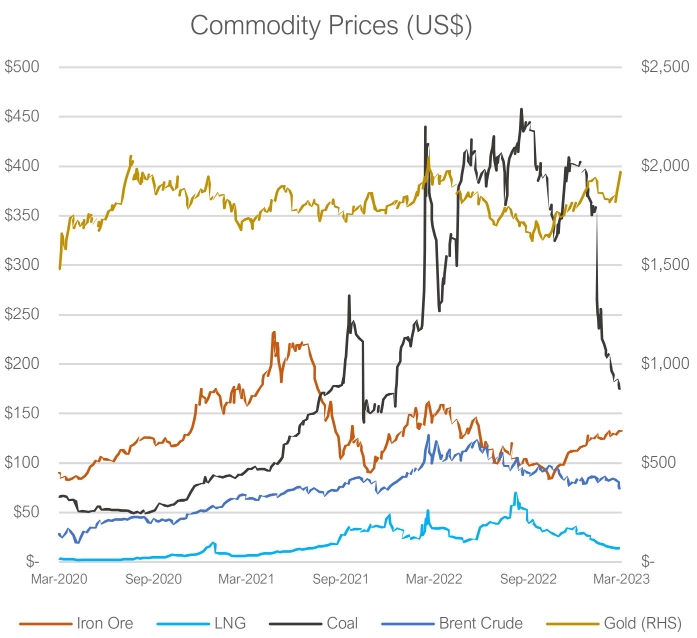
Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		**RBA Minutes**	**Westpac Leading Index**		**Judo Bank Flash PMIs**
US		**Philly Fed. Non-Manuf. Survey;** Existing Home Sales	**FOMC Meeting;** MBA Mortgage Apps	**Curr. Acc.;** **Chicago Fed. Natl. Activity Index;** **Kansas City Fed. Manuf. Activity;** New Home Sales; Weekly Jobless Claims	**S&P Global Flash PMIs;** **Durable Goods;** **Kansas City Fed. Serv. Activity;**
Europe	**German PPI;** **EZ Trade;** UK Rightmove House Prices	**ZEW Survey;** **EZ Constr. Output;** **French Ret. Sales;** **Swiss Trade, M3 Money Supply & KOF Institute Forecast;** **UK Public Sector Finances;** Belgian & Irish cons. Conf.; EU27 New Car Reg. Finnish Unempl.;	**UK CPI & PPI;** **EZ & Italian Curr. Acc.;** **Norwegian Unempl.;** Dutch Cons. Conf.; UK & Dutch House Prices;	**BoE, Norwegian & Swiss Policy Rates;** Danish Cons. Conf.	**S&P Global Flash PMIs;** **EZ Cons. Conf.;** **UK Ret. Sales &GfK Cons. Conf.;** **Spanish, Swedish & Finnish PPI;** **Belgian Bus. Conf.;** Spanish & Dutch Q4 GDP (Final); French Quarterly Wages
Japan		**Vernal Equinox Day**	**Machine Tool Orders**	Dept. Store Sales	**Natl. CPI;** **Jibun Bank Flash PMIs**
China	**1yr & 5yr Prime Loan Rates**				









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