



## WEEKLY UPDATE

27<sup>th</sup> FEBRUARY 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	87,642	-0.29%	1.09%	7.99%
MSCI World Ex-Aus. (Unhedged)	13,967	-0.71%	0.80%	-0.98%
MSCI World Ex-Aus. (Hedged)	2,249	-2.37%	-0.15%	-7.54%
Bloomberg AusBond 0+ Composite	9,524	-0.06%	-0.32%	-6.06%
Bloomberg Barclays Global Agg. (Hedged)	963	-0.63%	-0.99%	-9.04%
S&P/ASX300 Property	61,442	0.13%	5.40%	-4.57%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,597	-2.47%	0.45%	-15.10%
S&P Global Infrastructure (Hedged)	5,917	-1.15%	-0.94%	2.62%
Bloomberg All Hedge Fund Index	1,971	N/A	-5.48%	-1.28%
VIX	21.7	7.44%	5.71%	-21.46%
Bloomberg Commodity Index (USD)	105.55	-1.76%	-8.15%	-6.09%
Iron Ore Index (62% Fe Aus. Off. China, USD)	130.00	1.56%	32.65%	-6.81%
LME Copper Spot (USD)	8,807.00	-0.72%	10.22%	-11.78%
Coal 1st Future (Newcastle Export, USD)	204.25	-2.44%	-41.20%	-14.72%
Brent Crude 1st Future (USD)	83.16	0.19%	-2.55%	-16.07%
LNG 1st Future (Japan/Korea)	14.99	-8.01%	-51.82%	-59.50%
Gold in AUD	2,693	0.54%	3.76%	1.30%
AUDUSD	0.6726	-2.22%	-0.56%	-6.10%
AUDEUR	0.6378	-0.85%	-1.87%	-0.34%
AUDNZD	1.0918	-0.87%	1.04%	1.98%
AUDGBP	0.5632	-1.42%	0.87%	4.92%
AUDJPY	91.7980	-0.52%	-2.15%	9.85%

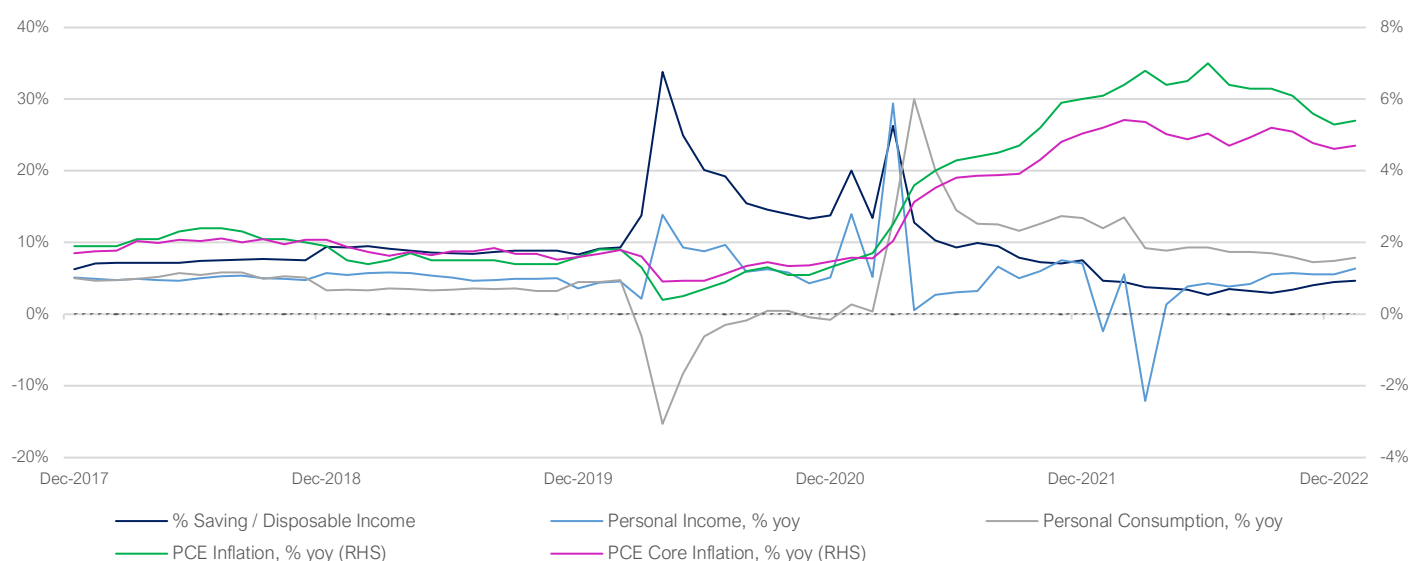
Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 26<sup>th</sup> February 2023

**Several foreign visits and meetings marked the first anniversary of the invasion of Ukraine last week. Exchanges between Russia and NATO are tense, to say the least, but there has also been a noticeable deterioration in relations between China and the west.**

**Concerns over renewed inflationary pressures continue to push bond yields higher. Equity indices may not be able to resist higher rates for much longer if technical patterns are any indication.**

**This week, the American ISM surveys are due out, as well as Eurozone inflation and Chinese PMIs. Australia will also receive updates on retail sales, monthly CPI and Q4 GDP on Wednesday.**

## US Personal Income, Spending, Savings & PCE Inflation



Source: Bloomberg, BEA, 26<sup>th</sup> February 2022

Several factors contributed to a difficult week for investors. Australian property was the only asset class able to eke out a gain as Australian bond yields rose by less than international equivalents. The Australian dollar experienced renewed selling pressure as the US dollar strengthened relative to other G4 currencies.

The first anniversary of the Russian invasion was marked by a surprise visit to Kyiv by President Biden, who pledged “*unwavering support*” for Ukraine. Putin responded by suspending adherence to the SMART nuclear arms treaty.

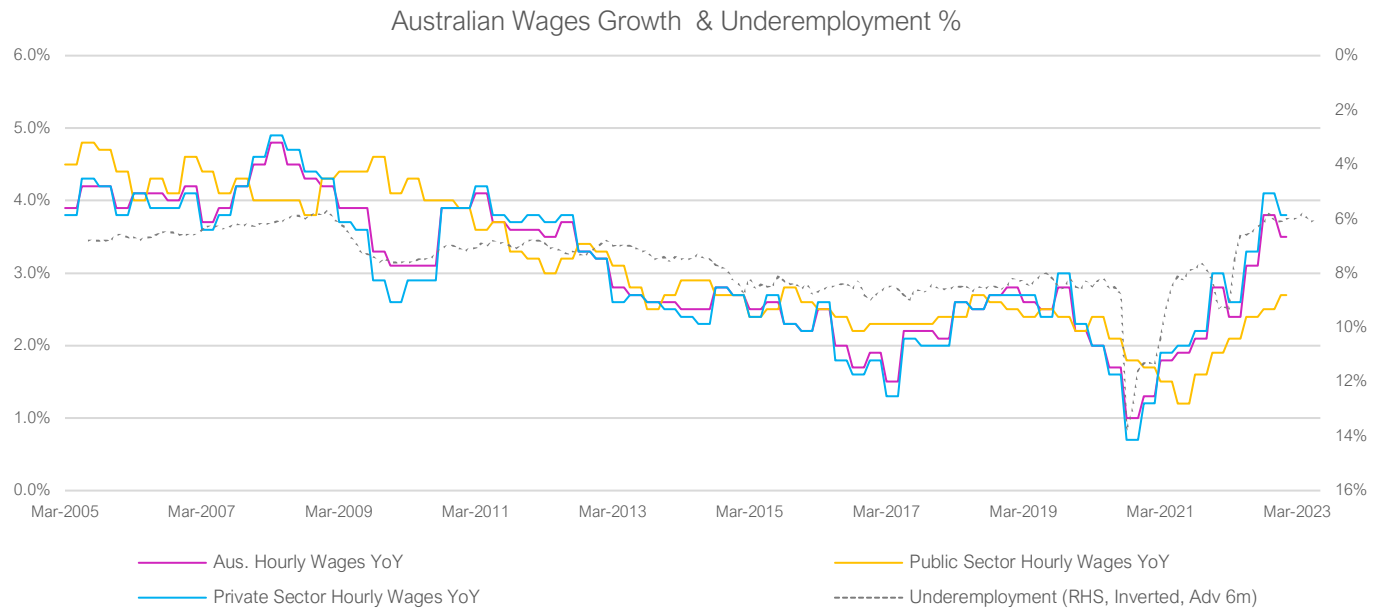
Relations between NATO and Russia are strained to say the least. But events last week also marked a further deterioration in relations between western allies and China. China’s senior diplomat Wang Yi travelled to Europe in an effort to persuade trade partners that China was not about to send lethal weapons to Russia and that it remained neutral regarding the conflict. His message was not found to be entirely convincing as he rounded off his tour with a visit to Moscow. China issued a 12-point peace proposal calling for negotiations. However, the proposal notably excludes any mention of Russia withdrawing troops, which appears to be in direct conflict with the first point: “*Respecting the sovereignty of all countries*”. In addition, China was among the nations that abstained on Thursday when the UN voted overwhelmingly to demand that Moscow withdraw its troops from Ukraine and stop fighting. China then joined Russia over the weekend in refusing to support a G20 finance ministers’ communique condemning the invasion.

**Inflation concerns dominated the economic agenda.** Friday’s US data showed a surprise reacceleration in the Federal Reserve’s preferred inflation measure, the Personal Consumption Expenditure Core Price Index. The series added +0.6% in January, above forecasts and the upwardly revised December figure of +0.4%. This resulted in the year-on-year increase rising to +4.7%, well above the consensus expectations of a +4.3% increase.

Moreover, the price increase coincided with increases in personal incomes and spending and followed earlier strength in the January non-farm payrolls and retail sales, as well as surprisingly upbeat global flash services PMIs.

**The market is now fully pricing +0.75% of additional hikes by July in the US**, which would take the Federal Funds to the 5.25%-5.50% range. However, the timing is less clear since the February FOMC minutes revealed that three or more members likely supported sticking with +0.50% steps. Those minutes pre-date the payroll and retail sales surprises, and with the departure of the dovish Vice-Chair Lael Brainard last week, the market is again debating whether the March increase could again be +0.50%. For that to occur, the CPI data released on 14<sup>th</sup> March, a week before the FOMC meeting, would most likely need to exceed forecasts.

Japanese CPI figures also accelerated to +4.3% year-on-year in January, as anticipated. Newly appointed Bank of Japan governor Kazuo Ueda sought to calm markets by saying that the inflation was not driven by higher demand and that easing should continue until the 2% inflation target is sustainable. However, the 10yr government yield continues to pressure the upper bound of the +/- 0.50% policy channel.



Source: Bloomberg, ABS, 26<sup>th</sup> February 2022

**Australian Q4 wages undershot expectations as they rose by +3.3% yoy.** Economists polled by **Bloomberg** had been **expecting a +3.5% yoy increase.** Underemployment figures suggest that private sector wage inflation may already be peaking. However, there is no sign of a downturn, and public sector wages appear likely to continue rising. **Underemployed workers represent the additional labour supply that can be called upon before there is upward pressure on wages.**

There was a **slightly hawkish surprise in the February RBA minutes, as the Board considered a +0.50% raise as the alternative to the actual +0.25 increase.** Cash rate expectations continue to creep higher, with 4.25% priced in by September.

It seems likely that the weakness in fixed income markets will continue this week. **Equity markets may also see a significant move.** Technical patterns in the US market are again in focus as the S&P500 is approaching the confluence of the 50, 100 and 200-day moving averages, as well as the trend resistance level from the peak in late 2021. The convergence tends to foreshadow a significant break in one direction or the other. See charts below for current technical points for both the ASX 300 & S&P500. **With inflation again rising, higher yields, widening credit spreads, and weakening earnings estimates suggest that any move seems likely to be to the downside.**

The **current reporting season is nearing its end.** Global earnings are down -3.0% for the quarter and -15.0% for the half year ended December, compared to flat earnings for the S&P/ASX300. According to Bloomberg, the **Australian semi-annual results represent a negative surprise of approximately -6.2%.**

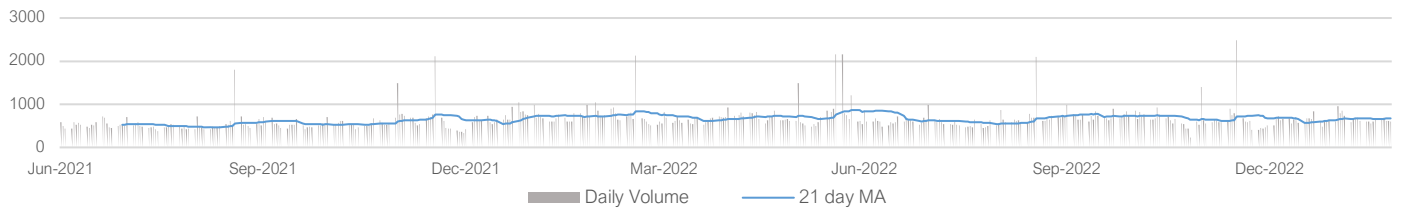
**Berkshire Hathaway** posted results over the weekend that showed a -7.9% drop in operating earnings as inflationary pressures took hold. However, 2022 operating earnings were up +12.2% compared to 2021. Cash holdings increased from US\$ 109 billion in the third quarter to US\$128.65 billion, with the company buying back \$2.6bn of stock for the quarter to take the total amount bought back 7.9b for the financial year to date.

**Qantas** revealed a dramatic improvement on FY 2022's first half A\$456 million loss, posting net income of A\$ 1 billion as travel increased.

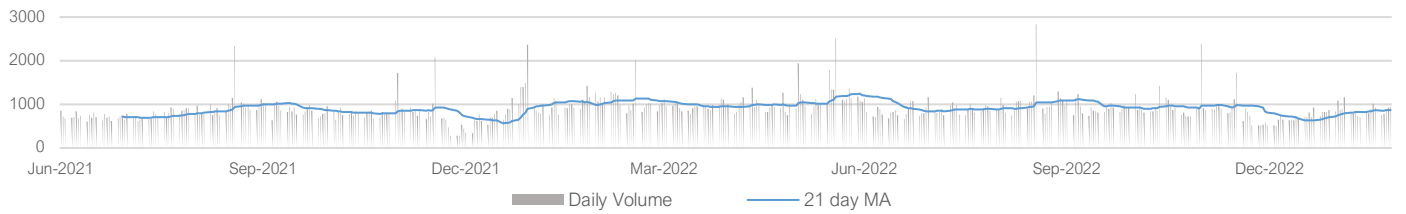
In contrast, **BHP and Rio Tinto** both missed analysts' forecasts last week and cut dividends. A build-up in Chinese iron ore and steel inventories also weighed the sector ahead of this week's Chinese PMI data.

Australia is expected to report a +0.7% (+2.7% yoy) increase in GDP for Q4 2022 on Wednesday. There will also be monthly CPI and retail sales figures, while ISM surveys and consumer confidence will be released in the US, and Eurozone CPI data will be published on Thursday.

### S&P500 Index

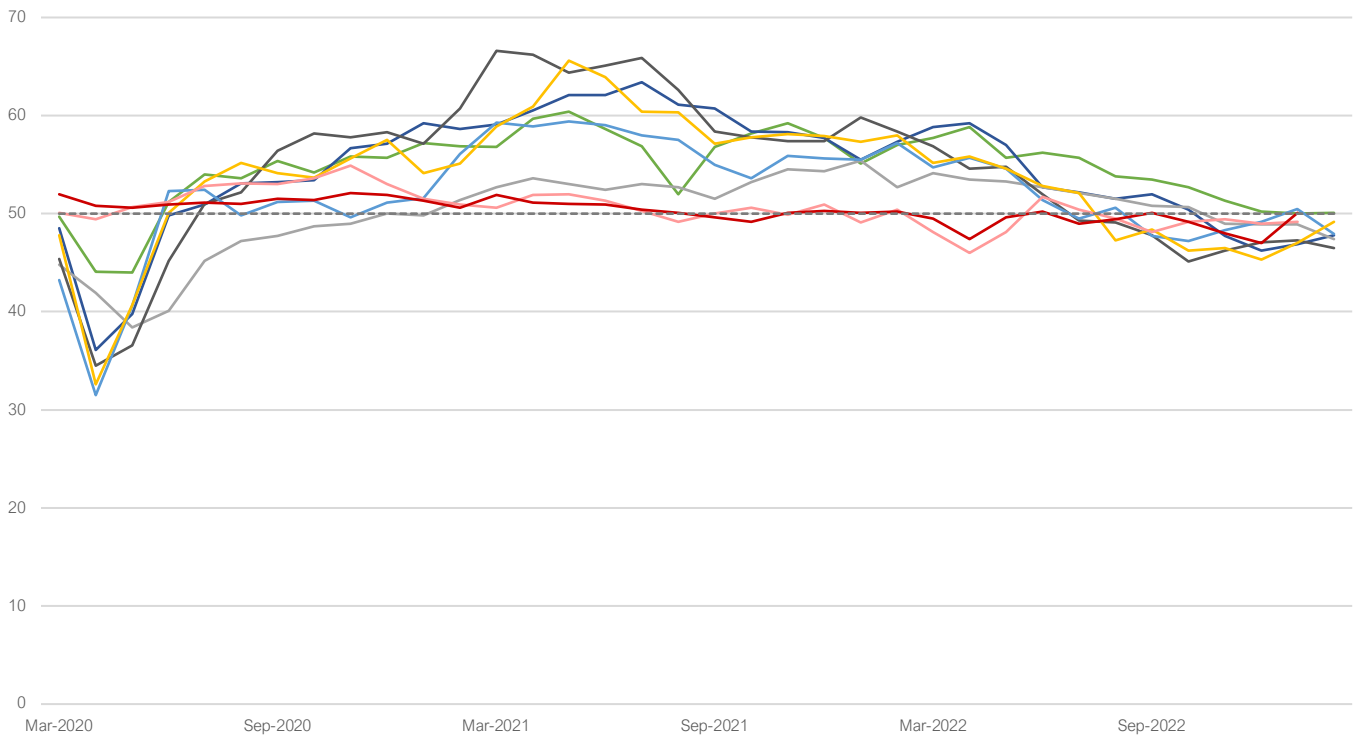


### S&P/ASX 300 Index

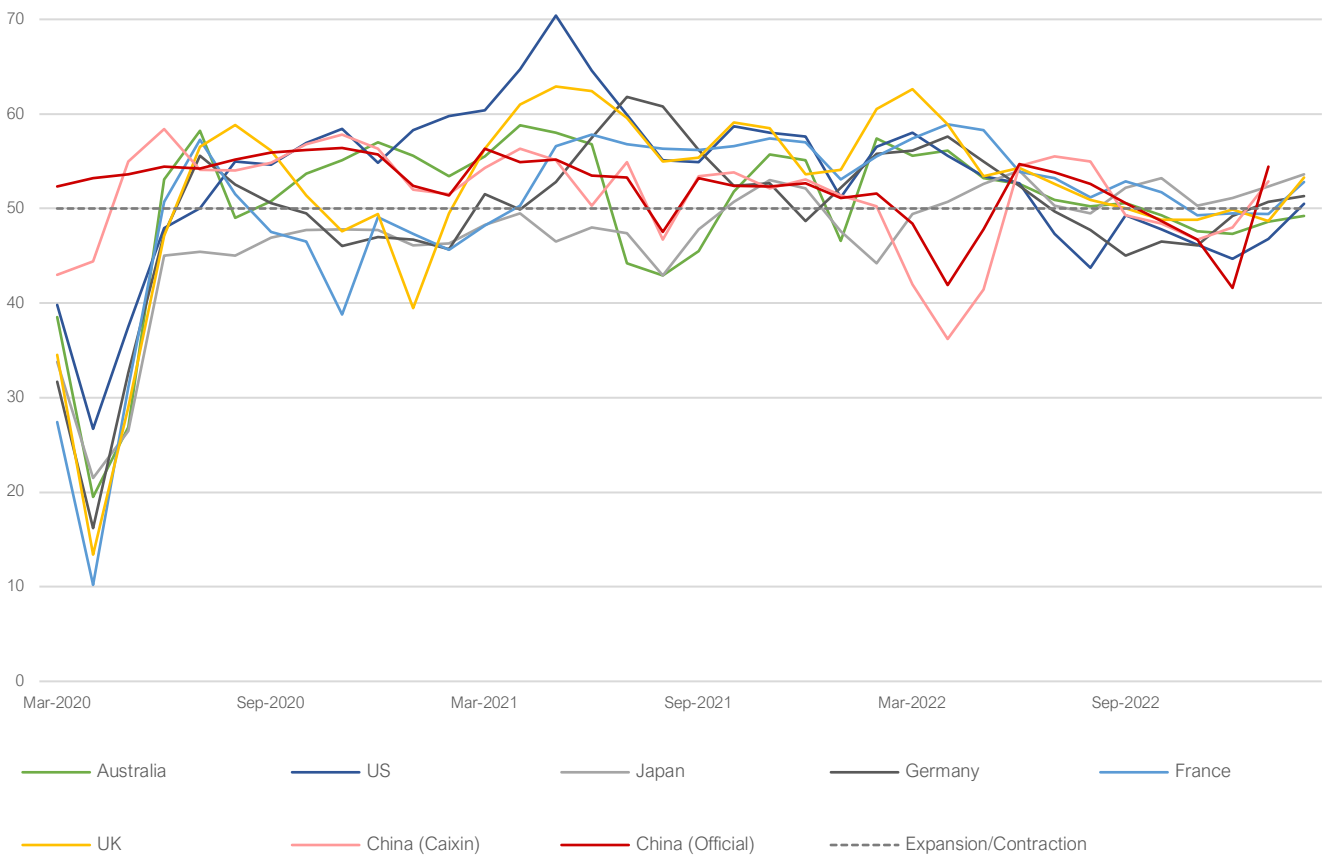


Source: Bloomberg, 26<sup>th</sup> February 2022

### Global Manufacturing PMI Surveys



### Global Services PMI Surveys

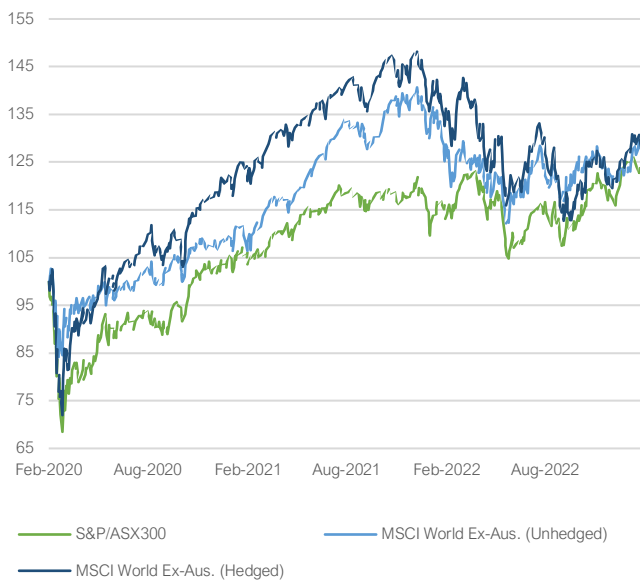


Source: Bloomberg, S&P Global, JPMorgan, Jibun, BME, CIPS, CFLP, Judo Bank, 26th February 2023

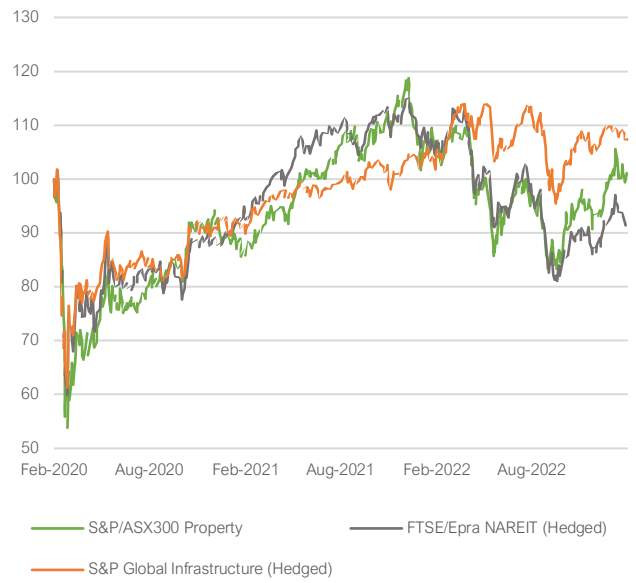
## Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
<b>Australia</b>	Company Oper. Profit; Inventories	<b>Retail Sales;</b> <b>Private Sector Credit;</b> BoP Curr. Acc.; Net Exports of GDP	<b>Q4 GDP;</b> <b>Monthly CPI;</b> <b>CoreLogic House Prices;</b> Judo Bank Mfg PMI (Final)	<b>Building Approvals;</b> <b>Private Sector Houses</b>	<b>Home Loans;</b> Judo Bank Serv. & Comp. PMIs (Final)
<b>US</b>	<b>Durable Goods;</b> <b>Pending Home Sales;</b> <b>Dallas Fed. Mfg. Activity</b>	<b>Conf. Board Cons. Conf.;</b> <b>MNI Chicago PMI;</b> <b>Richmond Fed. Surveys;</b> <b>Dallas Fed. Serv. Activity;</b> <b>Adv. Goods Trade;</b> <b>Wsale/Ret. Inventories;</b> House Price Purchase Index; FHFA House Price Index; S&P CoreLogic House Prices;	<b>ISM Manufacturing;</b> Constr. Spending; S&P Global Mfg PMI (Final); MBA Mortgage Apps	<b>Unit Labour Costs;</b> <b>Productivity;</b> Weekly Jobless Claims	<b>ISM Services;</b> S&P Global Serv. & Comp. PMIs (Final)
<b>Europe</b>	<b>EZ Cons., Econ., Ind., &amp; Serv. Conf.;</b> <b>EZ M3 Money Supply;</b> <b>German, Norwegian &amp; Swedish Ret. Sales;</b> <b>Swedish Household Lending;</b> Belgian CPI; Finnish PPI;	<b>French &amp; Spanish CPI;</b> <b>French Swedish &amp; Austrian PPI;</b> <b>French Cons. Spending;</b> <b>Spanish Curr. Acc.;</b> <b>Swiss, Danish, Finnish &amp; Swedish Q4 GDP;</b> <b>Swiss KOF Leading Ind.;</b> Irish, Finnish & Dutch Ret. Sales	<b>Tier 2 S&amp;P Global Mfg PMIs;</b> <b>German &amp; Irish Unempl.;</b> <b>UK Money Supply, Cons. Credit;</b> <b>Italian Budget Balance;</b> Norwegian & Irish Curr. Acc.; UK Nationwide House Prices; Irish CPI	<b>EZ, German, Italian, Dutch &amp; Austrian CPI;</b> <b>EZ, Spanish, Italian, Belgian &amp; Danish Unempl.;</b> <b>French Budget Balance;</b> Italian New Car Reg.	<b>EZ PPI;</b> <b>French Ind. Prod.;</b> <b>German Trade;</b> <b>Tier 2 S&amp;P Global Serv. &amp; Comp. PMIs;</b> <b>Norwegian Unempl.;</b>
<b>Japan</b>	<b>Leading &amp; Coinc. Indices</b>	<b>Ret. Sales;</b> <b>Ind. Prod.;</b> <b>Housing Starts</b>	Jibun Bank Mfg PMI (Final)	<b>Monetary Base;</b> <b>Cons. Conf.;</b> <b>Capital Spending;</b> <b>Company Sales &amp; Profits;</b>	<b>Jobless Rate;</b> <b>Job-to-Applicant Ratio;</b> Tokyo CPI; Jibun Bank Serv. & Comp. PMI (Final)
<b>China</b>			<b>Official PMIs;</b> <b>Caixin Mfg. PMI</b>		<b>Caixin Serv. &amp; Comp. PMIs</b>

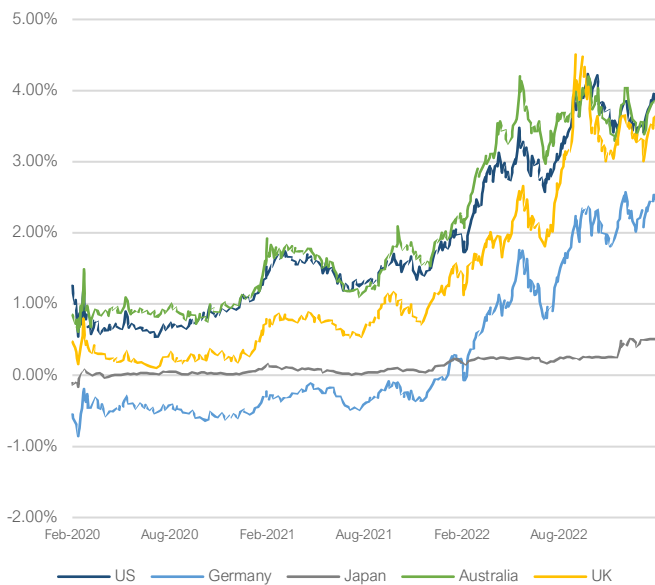
3Yr Equity Indices (Rebased to 100)



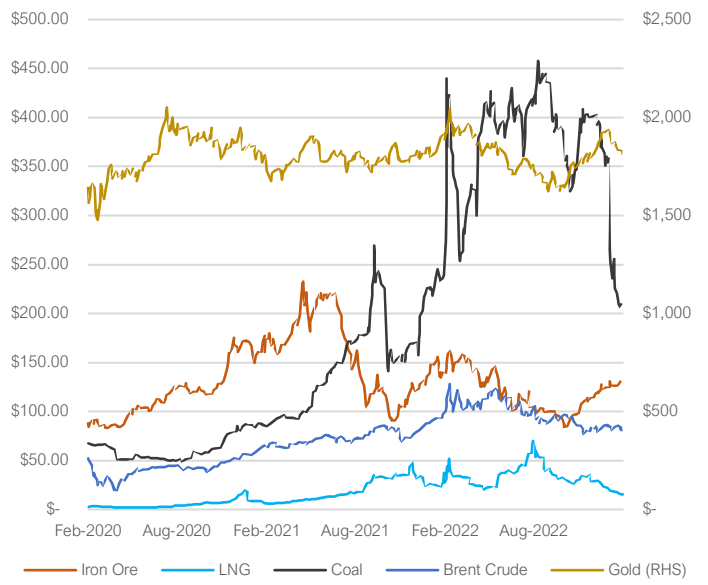
3Yr Prop. & Infrac. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 26<sup>th</sup> February 2023

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