FINANCIAL MARKET CONDITIONS
March 2023

Local Government Finance Authority

Despite concerns over the banking system and bank contagion fears following the collapse of Silicon Valley Bank and subsequent takeover of Credit Suisse by UBS, global equities quickly bounced back after share markets experienced its steepest one-day fall this year on Monday 13 March 2023. Despite the volatility global equities ended the month higher, rising by approximately 3-4% in March, capping off gains of 7% in the first quarter of 2023.

Despite the banking jitters, major central banks continued the course of hiking policy rates, undeterred by market volatility, noting the priority to retain focus on the fight against inflation. Both the FOMC and the Bank of England continued to deliver rate hikes – joining other central banks in potentially bringing their respective tightening cycles to an end.

US economic data continued to support the potential of a soft landing, with an easing of inflation pressure and a moderate bounce back in some key data readings. The annual CPI rate eased from 6.4% to 6.0% and is now at the lowest level since September 2021. Personal consumption expenditure also slowed, and employment was weaker with the number of US job openings in February falling to its lowest level since May 2021. Manufacturing data was mixed, broadly illustrating that manufacturing remains expansive, but demand for goods has cooled. Business activity also dipped in March. Markets expect that there will be a slowdown in rate hikes by the Fed with market pricing in a potential pause in May.

In Europe, central banks continue to hike primarily due to the persistence of inflation pressures. The ECB delivered another 0.50% hike, as did the SNB, notwithstanding the issues with Credit Swiss. In Europe, real estate stocks continue to fall with investors increasingly worried about the prospects of rates remaining higher for longer. Economic data throughout March illustrated a bounce in activity, with manufacturing data back at its highest level since May last year, placing continued pressure on the ECB to continue tightening interest rates. German factory orders also rose more than expected, showing a third successive increase.

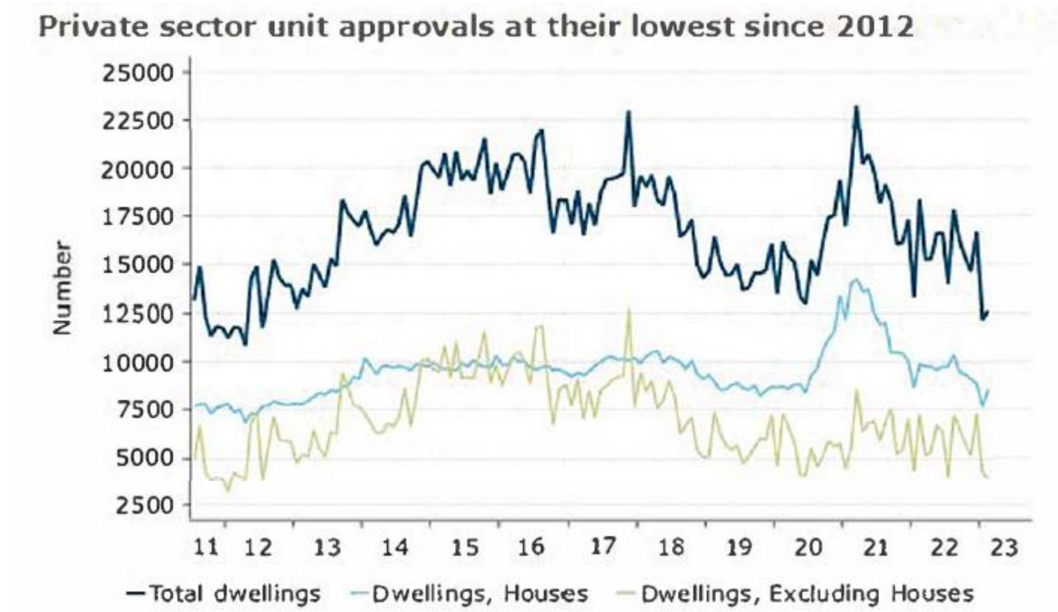
In the UK, there is also mixed economic data. Housing weakness is evident, with a drop in house prices by around 3%, after seven consecutive months of weakness. Inflation pressures have subdued somewhat with energy prices falling; however, inflation remains a concern with the BoE raising the cash rate by 0.25%, the 11th consecutive time, leaving the door open for further hikes if inflation pressures persist. However, employment continues to be resilient, with the unemployment rate remaining at 3.7% and retail sales surged by 1.2% in February following a bounce in consumer confidence following subdued energy prices.

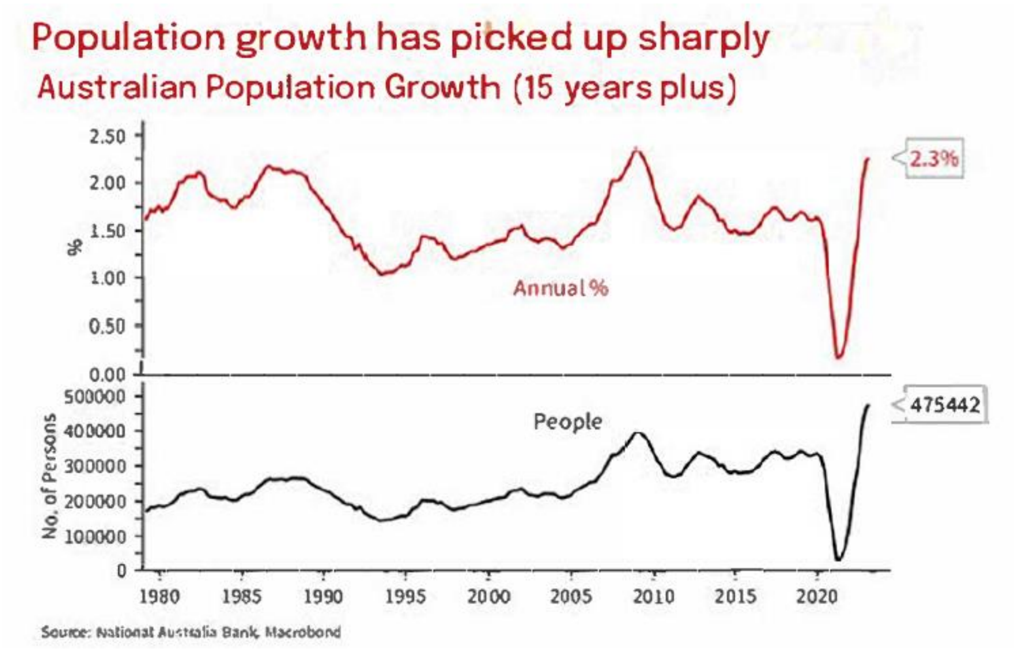
The Chinese economy has performed better than expected since the exit of the zero COVID policy in December 2022. The government has introduced a raft of measures to improve the property sector slump, including lowering mortgage interest rates and tax on house purchases. Recent home sales and price data has signaled a rebound, and manufacturing data in China was also stronger than expected.

Property prices turned positive in February, the first time in 18 months

Source: Macrobond, ANZ Research

In Australia, data throughout February broadly illustrated the negative effects of rising interest rates. Consumer confidence continued to weaken, with cost-of-living pressures and interest rate rises weighing heavily. Housing loan commitments continued to fall, its thirteenth consecutive month of decline and lowest level since September 2020. Ongoing weakness in building approvals particularly in apartments is coming at a time of very strong population growth, signaling that tight vacancy rates and elevated rents are likely to persist. The monthly consumer price indicator showed the annual rate stepped down further to 6.8%, marking two consecutive months of below consensus estimates. Dwelling prices were slightly firmer, recording the first gain since April 2022 – however continue to be 9% lower than a year ago. The labour market remains resilient, with the unemployment rate dropping back to 3.5% in February as businesses still struggled to find workers.





The Reserve Bank of Australia kept rates on hold in April after raising rates by 0.25% in March. The decision is consistent with earlier messaging that rates are now at a level that allows the RBA time to assess the cumulative impact of policy tightening. The statement highlighted that 'further tightening of monetary policy may well be needed', clearly dependent on future economic data. Banks are divided calling one more hike of 0.25%, or to hold the cash rate at 3.60% as the peak in the cycle – however all of the major banks expect the RBA will begin to cut at the end of 2023 or throughout 2024.