



## WEEKLY UPDATE

20<sup>th</sup> FEBRUARY 2023

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	87,893	-1.14%	2.85%	5.67%
MSCI World Ex-Aus. (Unhedged)	14,066	0.97%	2.35%	-1.00%
MSCI World Ex-Aus. (Hedged)	2,303	0.20%	3.74%	-5.14%
Bloomberg AusBond 0+ Composite	9,529	-0.40%	0.07%	-5.73%
Bloomberg Barclays Global Agg. (Hedged)	969	-0.45%	0.28%	-8.74%
S&P/ASX300 Property	61,361	1.46%	7.98%	-6.59%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,663	-0.76%	4.29%	-12.32%
S&P Global Infrastructure (Hedged)	5,986	0.20%	2.31%	4.58%
Bloomberg All Hedge Fund Index	1,969	N/A	-5.62%	-1.42%
VIX	20.0	-2.48%	-13.41%	-27.86%
Bloomberg Commodity Index (USD)	106.53	-1.97%	-7.20%	-4.57%
Iron Ore Index (62% Fe Aus. Off. China, USD)	128.00	1.59%	32.64%	-4.83%
LME Copper Spot (USD)	8,871.00	-0.38%	8.78%	-11.38%
Coal 1st Future (Newcastle Export, USD)	209.35	-7.41%	-37.43%	-9.92%
Brent Crude 1st Future (USD)	83.00	-3.92%	-7.55%	-10.72%
LNG 1st Future (Japan/Korea)	15.92	-11.48%	-39.50%	-35.05%
Gold in AUD	2,678	-0.70%	1.70%	1.39%
AUDUSD	0.6879	-0.55%	2.90%	-4.29%
AUDEUR	0.6432	-0.75%	-0.34%	1.65%
AUDNZD	1.1013	0.38%	0.98%	2.43%
AUDGBP	0.5712	-0.45%	1.31%	7.59%
AUDJPY	92.2770	1.49%	-1.63%	10.49%

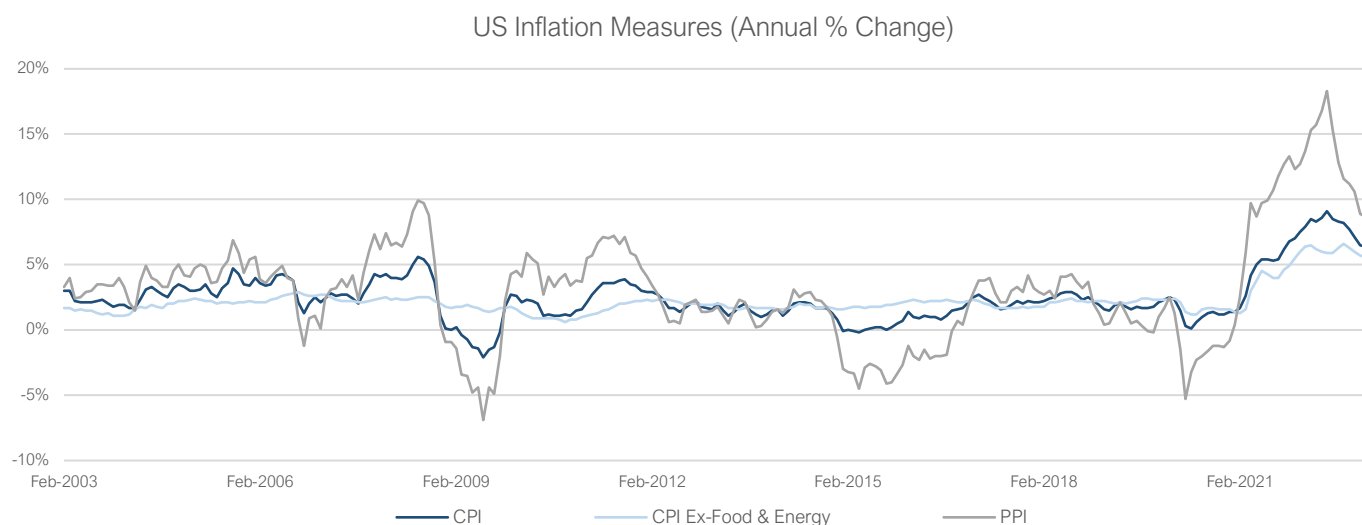
Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 18<sup>th</sup> February 2023

**Yields continued to rise last week following disappointing but important developments in inflation and hawkish comments from central banks. Global equities nevertheless moved higher, while Australian shares slipped despite improving earnings announcements.**

**Australian unemployment rose to 3.7%. But the actual figure may be a little lower, considering the number of Australians that already have jobs lined up.**

**Wage data will be released this week, as well as RBA and FOMC minutes, the latest round of flash PMIs, Japanese CPI and US PCE inflation.**

**US markets will be closed on Monday for the Presidents Day holiday. US officials have attended the Munich Security Conference, suggesting that the Chinese may be preparing to supply lethal weapons to Russia as the one-year anniversary of the invasion approaches.**



Source: Bloomberg, BLS, 18<sup>th</sup> February 2022

Risk assets started on a positive note last week, rebounding from the previous week's weakness caused by rising bond yields. Although international stocks finished the week in positive territory, the last few days saw sentiment turn more bearish as inflation data and central bankers provided negative updates. Bond yields continued their rise.

The Australian index slipped even as earnings surprises turned positive by +1.3%, according to Bloomberg. Earnings per share are up +2.9% so far, with 120 / 292 reports released. Financials were the worst performing sector (-4.3%) after CBA provided a more cautious outlook on the consumer. Temple & Webster shares fell -25.7% after recording a -47% drop in half-yearly earnings, and Star Entertainment fell -20.5% after warning of future impairment charges. In the US, Tesla climbed +5.8%, despite announcing that it would recall 362,000 self-driving cars.

American data was the main focus on the macro front last week. US CPI inflation continued to slow, but the pace of the decline disappointed the market. The annual headline figure was expected to fall from +6.5% to +6.2%. However, prior revisions saw the number decline by just -0.1% to +6.4%. The core series also slowed by less than expected, from +5.7% to +5.6% yoy.

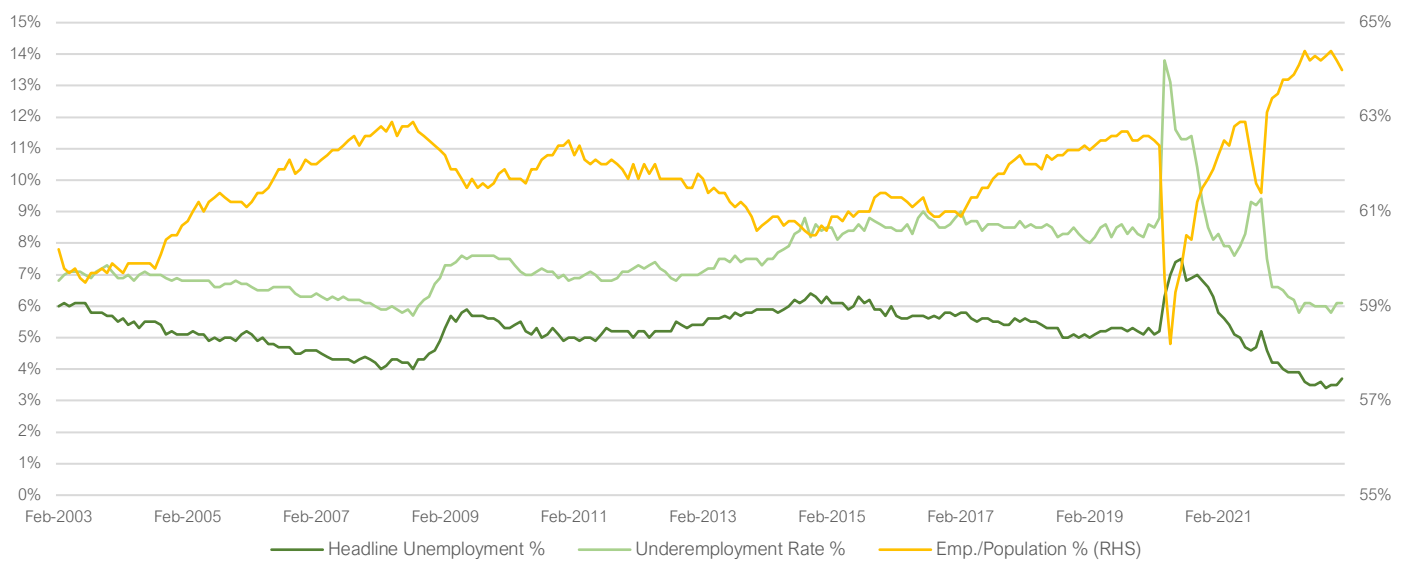
Moreover, there were signs that goods prices, the primary source of disinflation, may be bottoming. Used car and truck prices fell -1.9% in the January CPI series, but the timelier Mannheim index shows that prices may be turning up. If services prices remain "sticky", rising goods prices provide some upside risk to inflation.

Similar patterns followed the CPI release in Thursday's Producer Price Index. December's annual figure was revised higher from +6.2% to 6.5%. The January figures slowed to +6.0%. But this was far higher than the +5.4% expected by the market. This Friday's PCE inflation number, the Federal Reserve's preferred measure, is expected to hold at +5.0%

At the same time, US retail sales provided a significant upside surprise for January. The +3.0% lift in consumer activity was much higher than the +2.0% expected. However, until inventory data is published, it is not clear whether the strong performance of department stores (+17.5%), clothing (+2.5%) and home furnishings (+4.4%) were the result of genuine strong demand consumers benefiting from heavily discounted clearance sales after Christmas. In any event, the stronger receipts in bars and restaurants (+7.2%) suggest that the consumer still has money to spend.

Despite flat activity in the industrial sector, Fed speakers responded to the data with more hawkish comments. Cleveland Fed. President Loretta and St. Louis President James Bullard, both currently non-voting members, supported raising rates above the 5.0%-5.25% level. Both well-known hawks, it emerged that they had supported continuing with +0.50% increases at the last meeting, leading to speculation that the FOMC minutes released on Wednesday this week may reveal an FOMC that is divided on the path of rates. Last week, Vice Chair Lael Brainard was appointed to lead the President's National Economic Council, meaning she will leave the FOMC this week. Dr Brainard is considered the most influential dove on the Committee, and the departure may see more hawkish members meet less resistance in deciding future policy. Expectations of the peak in rates are now creeping above the previously priced 5.25% ceiling.

## Australian Employment Measures



Source: Bloomberg, ABS, 18<sup>th</sup> February 2022

In Europe, ECB officials also spoke on the subject of the future path of interest rates, suggesting that rates may need to rise by more than the market is currently pricing.

Both the US dollar and the Euro strengthened over the week.

UK inflation dropped by more than expected from +10.5% yoy to a still very high +10.1% change. UK rates are expected to rise from the current level of 4.0% to nearer 4.5% later this year.

Appearing before the House of Representatives Standing Committee on Economics, Governor Lowe was similarly hawkish as he emphasised again that the RBA's priority was taming inflation.

Thursday's January employment report showed seasonally adjusted unemployment unexpectedly rising from 3.5% to 3.7%, although trend unemployment remained at 3.5% and underemployment remained at 6.1%. Including the estimated 100k Australians waiting to start jobs, a more accurate unemployment estimate is likely closer to 3.6%. Hours worked also declined by more than -2% as a staggering 43% of employed Australians took leave. The change from COVID-disrupted work patterns to employees enjoying a break is undoubtedly a welcome development.

In other news, the Chinese administration declared a "decisive victory" over COVID, imposed retaliatory sanctions on America's Lockheed Martin and Raytheon, and said it would scrutinize Ford's pact with CATL.

Tensions between China and the US continue to escalate. At the Munich Security Conference held over the weekend, US officials alleged that the Chinese might be about to supply lethal weapons to Russia. Friday 24<sup>th</sup> will mark the one-year anniversary of the invasion of Ukraine.

Besides the FOMC minutes and PCE inflation, the latest RBA minutes will be released this week with no surprises anticipated. The latest PMI surveys will be published, as well as Australian wage data on Wednesday, followed by Japanese CPI inflation on Friday. The US market is closed today for Presidents' Day.

## Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
<b>Australia</b>		<b>RBA Minutes;</b> <b>Judo Bank Flash PMIs</b>	<b>Wage Price Index;</b> <b>Westpac Leading Index;</b> Construction Work Done	<b>Private Capex</b>	
<b>US</b>	<b>Presidents' Day</b>	<b>S&amp;P Global Flash PMIs;</b> <b>Philly Fed Survey;</b> Existing Home Sales	<b>FOMC Minutes;</b> MBA Mortgage Apps	<b>Chicago Fed. Natl. Activity Index;</b> <b>Kansas City Fed Manuf. Activity;</b> Q4 GDP (2 <sup>nd</sup> Est.); Weekly Jobless Claims	<b>PCE Inflation;</b> <b>Personal Income &amp; Spending;</b> <b>UMich Cons. Sent.;</b> <b>Kansas City Fed Services Activity;</b> New Home Sales
<b>Europe</b>	<b>Swedish &amp; Finnish CPI;</b> <b>EZ Construction Output;</b> Danish, Dutch, Irish & Belgian Cons. Conf.; UK Rightmove House Prices	<b>ZEW Survey;</b> <b>EZ &amp; Irish Cons. Conf.;</b> <b>S&amp;P Global Flash PMIs;</b> UK Public Sector Finances; EU27 Car Reg.; Swiss M3 Money Supply, Imp. & Exp.; Finnish Unempl.	<b>German &amp; Italian CPI;</b> <b>IFO Survey;</b> Dutch House Prices; French Bus. & Manuf. Conf.; Irish PPI	EZ (Jan Final) & Austrian CPI; Norwegian Unempl. & Credit Ind. Growth; Belgian Bus. Conf.; Spanish Mortgage Lending	<b>French Cons. Conf.;</b> <b>UK &amp; German GfK Cons. Conf.;</b> <b>Spanish PPI;</b> Danish Retail Sales; German Q4 GDP (4 <sup>th</sup> Est); Swedish Econ. Tendency Survey & Cons. & Manuf. Conf; Unicredit Bank Austria Manuf. PMI
<b>Japan</b>		<b>Jibun Flash PMIs;</b> <b>Machine Tool Orders</b>	<b>PPI Services</b>	<b>Emperor's Birthday</b>	<b>National CPI;</b> Dept. Store Sales
<b>China</b>	<b>1yr / 5yr Prime Loan Rate;</b> <b>[FDI]</b>				

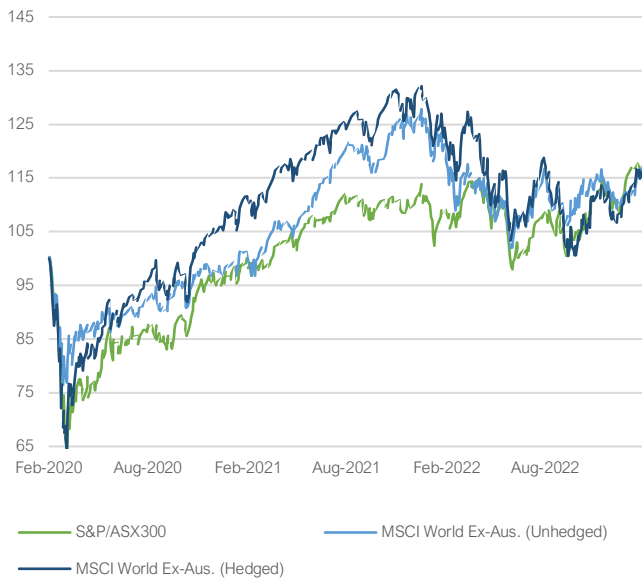
**Tuesday, February 21** - Walmart (WMT), Home Depot (HD), Molson Coors (TAP), Caesars Entertainment (CZR), and Palo Alto Networks (PANW)

**Wednesday, February 22** - Stellantis (STLA), Baidu (BIDU), TJX Companies (TJX), eBay (EBAY), Nvidia (NVDA), Etsy (ETSY), and Lucid Group (LCID)

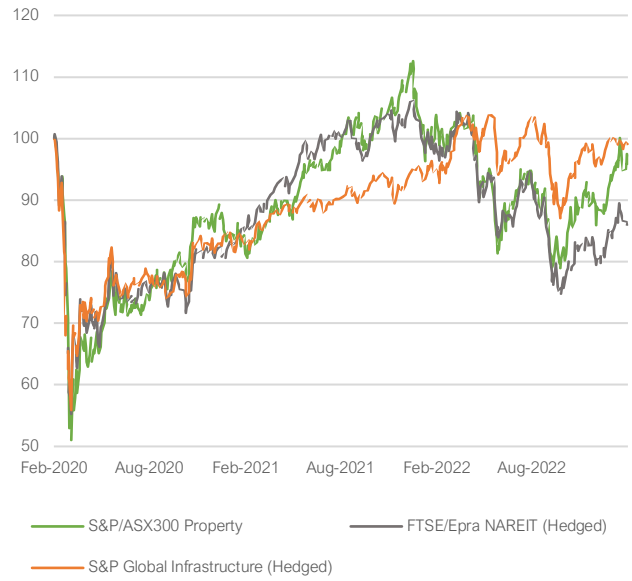
**Thursday, February 23** - Alibaba (BABA), Wayfair (W), Booking Holdings (BKNG), Moderna (MDNA), Domino's Pizza (DPZ), Block (SQ), and Keurig Dr Pepper (NASDAQ:KDP)

**Friday, February 24** - EOG Resources (NYSE:EOG) and Taboola (NASDAQ:TBLA)

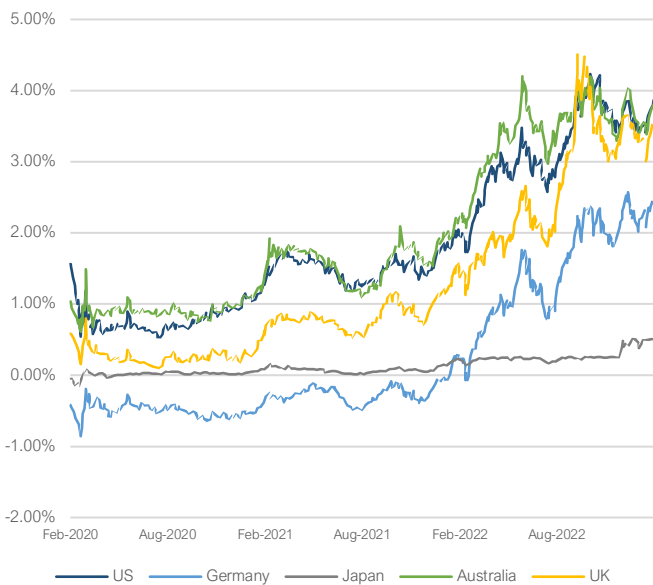
3Yr Equity Indices (Rebased to 100)



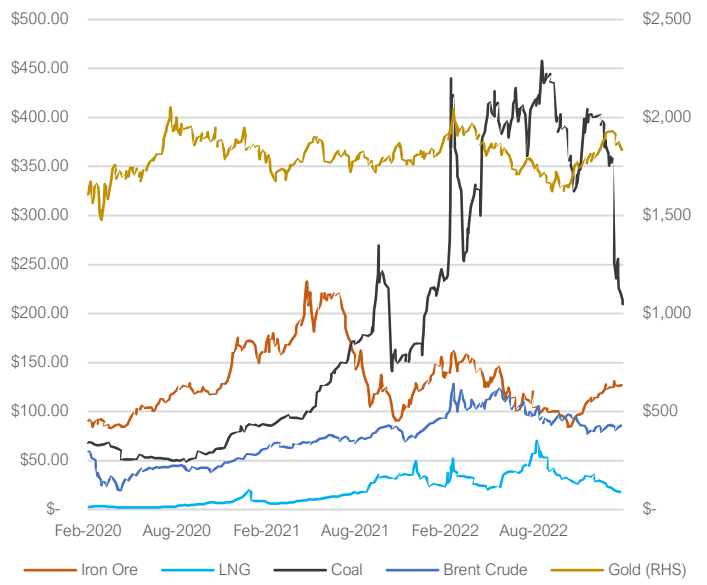
3Yr Prop. & Infrac. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 18<sup>th</sup> February 2023

**Disclaimer**

The contents of this communication is prepared by Brerona Capital Asset Management Pty Ltd (A.C.N. 627 650 293; AFSL 520526). The information contained in this communication is general in nature and does not take into consideration any investors personal objectives, goals, needs and financial situation. You should not rely on the information contained in this document to make any investment decisions without first consulting an investment professional such as your financial adviser. Any unauthorised use of this document is prohibited. This document (including any attachments) is intended only for the addressee, it may contain information of a privileged and confidential nature. If you are not the addressee of this communication, you must not copy, reproduce, disseminate or use this email and its contents. If this communication has been received in error by you, please inform us immediately and securely delete. Sharing, transmitting, copying, disseminating all or part of the contents of this document may result in a breach of the Federal Privacy Legislation and or copyright and trademark infringement of Brerona Capital Asset Management Pty Ltd and its related entities.