Morning Report

Friday, 4 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,312	-0.6%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,216	-0.2%	10 yr bond	4.14		0.04		90 day BBSW	4.18	-0.01
Japan Nikkei	32,159	-1.7%	3 yr bond	3.79		0.02		2 year bond	3.83	0.01
China Shanghai	3,439	0.6%	3 mth bill rate	4.25		0.00		3 year bond	3.78	0.02
German DAX	15,893	-0.8%	SPI 200	7,238.0		-7		3 year swap	4.06	-0.01
UK FTSE100	7,529	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.11	0.08
Commodities (close & change)*			TWI	60.7	-	-	60.7	**United States**		
CRB Index	278.5	2.0	AUD/USD	0.6537	0.6569	0.6514	0.6551	3-month T Bill	5.26	-0.01
Gold	1,934.06	-0.4	AUD/JPY	93.67	94.09	92.97	93.36	2 year bond	4.88	0.00
Copper	8,586.00	97.8	AUD/GBP	0.5143	0.5170	0.5136	0.5153	10 year bond	4.18	0.10
Oil (WTI futures)	81.55	2.1	AUD/NZD	1.0754	1.0792	1.0734	1.0776	**Other (10 year yields)**		
Coal (thermal)	145.00	2.3	AUD/EUR	0.5977	0.5992	0.5964	0.5982	Germany	2.61	0.07
Coal (coking)	247.00	2.5	AUD/CNH	4.7085	4.7124	4.6848	4.7030	Japan	0.65	0.03
Iron Ore	101.60	0.9	USD Index	102.59	102.84	102.37	102.48	UK	4.47	0.07

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The US bond rout at the long end deepened, that is, US bond yields continues to rise, amid ongoing concerns over increased borrowing plans by the US government.

The Bank of England (BoE) hiked its bank rate by 25 basis points, as widely anticipated, and maintained its tightening bias.

Share Markets: US share markets again ended lower, this time ahead of earnings reports from Amazon and Apple. The Dow fell 0.2%, the S&P dropped 0.3% and the Nasdaq edged 0.1% lower.

Interest Rates: The US bond rout deepened, driving 10-year yields up 10 basis points to a nine-month high of 4.18%. The US 2-year yield closed unchanged at 4.88%.

Foreign Exchange: The AUD/USD fell to a low of 0.6514 last night – its lowest level since 1 June - as selling pressure on the AUD continued amid buying demand for the USD. The technical picture suggests that the market appears to be reluctant to take it under 0.6500 for now and the AUD/USD might be looking to consolidate its recent sharp move lower (from 0.6740 on 31 July to 0.6514 last night).

Commodities: Oil rose after Saudi Arabia prolonged its 1 million barrels per day (bpd) output cut by another month to September and said there could be more to come. Meanwhile, Russia will extend a reduction in its crude exports into next month, while tapering the size of the cutback to 300,000 bpd. OPEC+ is scheduled to discuss the market later today.

Australia: The volume of retail trade fell 0.5% in the June quarter. This was the third consecutive quarterly contraction – the first time this has occurred since the global financial crisis (GFC). Retail trade volumes are 1.7% below their September quarter 2022 peak and 1.4% lower compared to a year ago. Outside of the pandemic, this is the first time since the early 1990s recession that sales volumes have fallen compared to the previous year.

Elevated inflation and the rapid cash rate tightening cycle from the Reserve Bank (RBA) are impacting household budgets and the volume of spending. Retail prices were 0.9% higher, following a 0.7% rise in the March quarter. The re-acceleration of retail price increases in the quarter will be an area to watch for the RBA.

The picture is bleaker after adjusting for record population growth. Real retail spending per capita dropped for the fourth consecutive quarter (-1.2%) and plunged 4.0% in annual terms – the largest fall in the history of the series.

Going forward, household budgets are likely to remain stretched as the lagged impact of monetary policy works its way through the system.

The trade surplus widened to $11.3 billion in June from a revised $10.5 billion surplus in May. Both imports and exports fell in the month with the decline in imports (-4%) outpacing that of exports (-2%). This was the first monthly fall in the value of imports in four months, reflecting the growing slowdown in domestic activity.

The RBA's Statement of Monetary is released earlier today. It will contain updated forecasts and forecasts will also be extended from June 2025 to December 2025.

Eurozone: The producer price index (PPI) fell 0.4% in June, a sharper decline than expected and the sixth consecutive monthly fall. In annual terms, the PPI declined 3.4%, the largest fall since June of 2020. This followed a revised 1.6% fall in May. The soft result points to further strong progress on goods disinflation.

United Kingdom: The BoE hiked the bank rate by 25 basis points, as widely expected. The latest hike represents a slowdown in the pace of tightening following a 50 basis point hike at the BoE's last meeting and takes the benchmark to 5.25% it's highest level since before the GFC.

Comments from BoE officials following the decision continued to suggest inflation risks are skewed to the upside, even though the committee's labour force and growth forecasts were revised lower.

BoE's Governor Andrew Bailey also warned that the "last mile" will need a prolonged period of restrictive rates, and it's "far too soon" to bet on a rate cut. The decision showed signs of division, however, with the vote split three ways. Traders pared bets on the peak rate to below 5.75%.

United States: The services purchasing managers' index (PMI) was finalised at 52.3 in July, down slightly from a flash reading of 52.4. The services sector continues to exhibit expansion, however, the rate of growth appears to be waning as the impact of rate hikes continues to filter through the economy.

US labour productivity logged its biggest gain in almost three years last quarter, rising 3.7% year on year and helping offset rising labour costs.

New orders for factory goods surged in June, boosted by strong demand for transportation equipment and other goods, showing some pockets of strength in manufacturing despite higher interest rates. Factory orders increased by a stronger-than-expected 2.3% after rising 0.4% in May. Orders advanced 0.9% on a year-on-year basis in June.

The US Commerce Department also reported that orders for non-defence capital goods excluding aircraft, which are seen as a measure of business spending plans on equipment, rose 0.1% in June, instead of 0.2% as reported in last month's estimate.

Richmond's Federal Reserve President Thomas Barkin said June's greater-than-expected easing in inflation may indicate the US economy can have a soft landing. Barkin added that "there is still a plausible story that inflation normalises in short order and the economy dodges additional trauma."

Initial jobless claims for unemployment benefits held near the lowest levels of the year, underscoring resilient demand for workers. Initial jobless claims for unemployment benefits ticked up by 6,000 to 227,000 in the week ending July 29. The median estimate was for 225,000 applications.

Today's key data and events:

AU RBA Statement on Monetary Policy (11:30am)
CH Current Account Q2 Prel. prev US$81.5bn (TBC)
EZ Ger. Factory Orders Jun exp -2.0% prev 6.4% (4pm)
EZ Retail Sales Jun exp 0.3% prev 0.0% (7pm)
US Non-farm Payrolls Jul exp 200k prev 209k (10:30pm)
Unemployment Rate Jul exp 3.6% prev 3.6% (10:30pm)
Avg. Hourly Earnings Jul exp 0.3% prev 0.4% (10:30pm)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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