bank SA

Morning Report

Tuesday, 6 June 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,216	1.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,563	-0.6%	10 yr bond	3.77		-0.02		90 day BBSW	4.07	0.05
Japan Nikkei	32,217	2.2%	3 yr bond	3.57		0.00		2 year bond	3.76	0.11
China Shanghai	3,388	0.1%	3 mth bill rate	4.07		-0.01		3 year bond	3.57	0.14
German DAX	15,964	-0.5%	SPI 200	7,188.0		-41		3 year swap	3.91	0.03
UK FTSE100	7,600	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.78	0.14
Commodities (close & change)*			TWI	60.6	-	-	60.6	**United States**		
CRB Index	260.4	0.8	AUD/USD	0.6601	0.6637	0.6579	0.6617	3-month T Bill	5.13	-0.08
Gold	1,961.86	13.9	AUD/JPY	92.40	92.66	92.14	92.34	2 year bond	4.47	-0.03
Copper	8,233.50	-11.5	AUD/GBP	0.5303	0.5342	0.5299	0.5322	10 year bond	3.68	-0.01
Oil (WTI futures)	72.15	0.4	AUD/NZD	1.0901	1.0919	1.0886	1.0900	**Other (10 year yields)**		
Coal (thermal)	147.00	9.7	AUD/EUR	0.6167	0.6193	0.6158	0.6177	Germany	2.38	0.07
Coal (coking)	225.67	0.2	AUD/CNH	4.6906	4.7172	4.6883	4.7103	Japan	0.43	0.02
Iron Ore	105.80	0.8	USD Index	104.05	104.40	103.93	104.01	UK	4.21	0.05

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: Softer services sector data in the US contributed to a fall in bond yields. Equity markets ended the session lower, with banks dropping further following reports of tighter capital requirements being imposed on more US banks. The US dollar was broadly unchanged against a basket of major currencies, while the Aussie strengthened on the day.

Share Markets: Equity markets ended lower, giving back initial gains that contributed to the S&P 500 increasing to be 20% higher since the lowest close in October 2022 – an indication of it entering a bull market. The S&P 500 ended 0.2% lower, the Nasdaq slipped 0.1%, and the Dow Jones lost 0.6%.

Bank shares were down 1% on the day, with regional banks down a larger 1.5%. The falls reflected a news report flagging potential tightening of capital requirements for regional US banks in response to the failure of Silicon Valley Bank and other lenders over recent months. The additional capital requirements are reported to impact banks with assets above $100 billion. This compares with the current $250 billion threshold, above which, more stringent Basel III capital and liquidity requirements are applied.

The ASX 200 rose 1.0% yesterday. The gains were led by consumer discretionary, material, and health care, which all rose more than 1%. Utilities and information technology were the only sector to fall on the day. Futures are pointing to a negative open today.

Interest Rates: Bond yields slipped on the back of softer economic data. The US 2-year yield fell 3 basis points, to 4.47%. The 10-year yield was 1 basis point lower, at 3.68%. Interest-rate markets are attaching around a 25% probability of a hike at the June Fed meeting. Markets are pricing a peak Fed funds rate of around 5.27% and have slightly more than a full 25-basis-point cut priced by January 2024.

The Australian government 3-year bond yield (futures) was unchanged overnight, at 3.57%. The 10-year government bond yield (futures) fell 2 basis points, to 3.77%.

The Reserve Bank (RBA) meets today for its June Board meeting. In a Bloomberg survey of 30 economists, 20 expect the RBA to remain on hold, will the remaining 10 expect a 25-basis-point hike. Interest-rate markets are attaching a 21% chance of a hike at the meeting. Beyond June, markets have slightly more than one 25-basis-point hike priced, with a peak cash rate of around 4.19% priced by October.

Foreign Exchange: The US dollar was broadly unchanged against a basket of major currencies. It traded between a low of 103.93 and a high of

104.40, before settling at 104.01.

The Aussie dollar strengthened against the US dollar. The AUD/USD pair rose from a low of 0.6579 to a high of 0.6637 during the New York session. It was trading around 0.6617 at the time of writing.

Commodities: Oil traded at around US$72 per barrel, closing slightly higher at the end of the session. However, this price is still below the level that prevailed when OPEC+ last announced surprise cuts in April, despite recent announcements from Saudi Arabia of further supply cuts. Gold prices rose, along with coal and iron ore. Copper slipped.

Australia: Business profits rose 0.5% in the March quarter, slowing substantially from a 12.7% gain in the December quarter. The slowdown was underpinned by a contraction in mining profits as commodity prices came off the boil. Non-mining profits were up 3.3% in the quarter. Annual profit growth remains robust for both mining and non-mining sectors.

Inventories expanded a solid 1.2% in the first quarter of 2023, while a revision to Q4 secured six consecutive quarters of inventory growth. Inventory accumulation was concentrated in accommodation & food services and wholesale trade. Inventory-to-sales ratios were broadly up across industries, increasing the risk of discounting if demand slows quickly. The change in inventories should add 0.3 percentage points to March quarter GDP growth.

Wage and salary expenses rose 1.8%, the slowest quarterly increase since the September quarter of 2021. This likely reflects slowing employment growth but may also be a sign that wage pressures are moderating alongside some modest softening in the labour market.

There is some early evidence that conditions are turning. Profit margins were slightly softer in the quarter; utilities, financial and other services, and mining were notable exceptions. Note, this data is in original terms and can be volatile from quarter to quarter. Softer profit margins are a sign that businesses may be losing pricing power.

The Melbourne Institute monthly inflation gauge recorded a reading of 0.9% in May, up from 0.2% in April. The outcome was the strongest monthly rise since January. In annual terms, headline inflation slowed to 5.9% over the year to May, from 6.1% in April. The trimmed mean measure, which provides a better gauge of underlying inflationary pressures, rose 0.8% in May, to be 5.2% higher over the year. The monthly pace accelerated from 0.3% in April, while the annual pace slowed from 5.5%.

ANZ-Indeed job ads rose 0.1% in May. This followed a 0.7% fall in April (revised from an initial -0.3% reading). The outcome was the first monthly rise following three consecutive falls. In annual terms, jobs ads fell 6.1%. Job ads have been falling in recent months, in line with a gradual easing in the tightness of the labour market. However, they remain strong and are coming from elevated levels. In fact, job ads remain 46.1% above 2019 levels.

China: Strength in the services sector surprised to the upside, as the Caixin services PMI printed at 57.1 in May. This was up from 56.4 in April and was above consensus expectations of 55.2. The outcome was the second strongest reading since November 2020. The result was stronger than the official services PMI released by the government last week, which came in at 53.8 in May. The Caixin measure is based on smaller firms compared to the official government statistic. The stronger-than-expected reading contributed to the Caixin composite PMI rising to 55.6 in May, from 53.6 in April.

The services sector has now been in expansionary territory for five consecutive months as the post-COVID rebound in consumer spending continues to support economic growth and drive the recovery.

Eurozone: Producer prices went backwards for the fourth consecutive month, as the producer price index (PPI) printed at -3.2% in April. This was below consensus expectations of -3.1% and followed a -1.3% reading in March. In annual terms, the PPI rose 1.0% over the year to April, coming in weaker than the 1.7% expected by consensus. This followed a revised 5.5% annual reading in March. The outcome is a positive sign for inflation in the region, showing the factor gate prices are falling in monthly terms. The results were driven by the continued unwinding of elevated energy prices following Russia's invasion of Ukraine in February 2022. In fact, energy prices fell 8.9% in the month and 10.1% over the year.

Excluding energy, the monthly PPI slipped 0.1% in April, taking the annual rate to 5.1%. This remains very elevated but is an improvement from the 8.0% annual rate, excluding energy, in March.

The Markit services PMI was finalised at 55.1 in May. This was down slightly from the 55.9 preliminary reading. The outcome was the fifth consecutive monthly result above 50 and suggests that the services sector remains firmly in expansionary territory.

United Kingdom: The Markit services PMI was finalised at 55.2 in May. This was broadly unchanged from the 55.1 preliminary reading. The services sector has now been in expansionary territory for four consecutive months.

United States: The services sector expanded at a slower-than-expected rate in May. The ISM services index slipped to 50.3 in May, from 51.9 in April. The outcome was the fifth consecutive month of expansion in the sector. Indeed, the sector has grown in 35 of the last 36 months. However, while still in expansionary territory, the reading was lower than the 52.4 expected by consensus and suggests that the aggressive tightening in monetary policy settings, which has already heavily impacted the manufacturing sector, is starting to weigh on the services sector. Looking further at the sub-components, new orders slipped to 52.9, from 56.1. Employment fell into contractionary territory, to 49.2, from 50.8. In an encouraging sign for the Fed, prices paid slowed in the month but remained above 50, falling to 56.2 in May, from 59.6 in April.

Separately, the Markit services PMI was finalised at 54.9 in May, slightly lower than the 55.1 preliminary reading.

Factory orders grew 0.4% in April. This was down from a revised 0.6% in March (revised down from an initial 0.9% reading). The outcome was below consensus expectations of 0.8%. Excluding transport, factory orders fell 0.2% in the month. This followed a 1.0% fall in March and was below consensus expectations for a 0.2% gain.

The final reading for April durable goods orders was unchanged from the preliminary estimate, at 1.1%.

Today's key data and events:

AU Current Account Q1 exp $7.0bn prev $14.1bn (11:30am)

AU RBA Monetary Policy Decision (2:30pm)

Cash Rate Target exp 3.85% prev 3.85%

EZ Ger. Factory Orders Apr exp 2.8% prev -10.7% (4pm)

EZ Retail Sales Apr exp 0.2% prev -1.2% (7pm)

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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