Morning Report

Friday, 7 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,163	-1.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,922	-1.1%	10 yr bond	4.22		0.10		90 day BBSW	4.28	0.01
Japan Nikkei	32,773	-1.7%	3 yr bond	4.21		0.11		2 year bond	4.30	0.11
China Shanghai	3,360	-0.5%	3 mth bill rate	4.53		0.03		3 year bond	4.22	0.11
German DAX	15,529	-2.6%	SPI 200	7,030.0		-90		3 year swap	4.55	-0.01
UK FTSE100	7,281	-2.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.23	0.10
Commodities (close & change)*			TWI	62.0	-	-	62.0	**United States**		
CRB Index	261.9	-0.9	AUD/USD	0.6655	0.6688	0.6599	0.6626	3-month T Bill	5.21	0.00
Gold	1,910.90	-4.4	AUD/JPY	96.22	96.31	95.30	95.44	2 year bond	4.98	0.04
Copper	8,258.00	-59.8	AUD/GBP	0.5239	0.5261	0.5196	0.5201	10 year bond	4.03	0.10
Oil (WTI futures)	71.82	0.0	AUD/NZD	1.0773	1.0782	1.0749	1.0761	**Other (10 year yields)**		
Coal (thermal)	143.75	-7.3	AUD/EUR	0.6132	0.6153	0.6080	0.6085	Germany	2.63	0.15
Coal (coking)	224.50	-1.5	AUD/CNH	4.8333	4.8513	4.8002	4.8096	Japan	0.41	0.02
Iron Ore	109.75	-0.3	USD Index	103.35	103.57	102.92	103.12	UK	4.66	0.17

Data as at 9:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A hotter-than-expected labour market report boosted expectations for more tightening form the Fed. This prompted a surge in treasury yields and a sell-off in equities. The US dollar was slightly softer.

Share Markets: Equities were lower on the back of the strong employment print but recouped losses in late trade. The S&P 500 finished down 0.8%, while the Dow Jones and the NASDAQ fell 1.1% and 0.8%, respectively.

The ASX 200 tumbled 1.2% yesterday. Futures are pointing to further falls at the open today.

Interest Rates: Yields were up across the curve as strong employment data bolstered expectations for the Fed to hike further. The 2-year yield rose 4 basis points to 4.98% after spiking as high as 5.12% earlier in the session (highest level since 2007). The 10-year yield gained 10 basis points to 4.03% after reaching an intra-day high of 4.08%. Both the 2- and-10-year yields closed around the levels reached before the collapse of the Silicon Valley Bank (SVB) in early March.

Interest rate markets see an 87% chance of a 25-basis point hike from the Fed this month and are pricing in a near 40% chance of a further hike beyond July.

Aussie bond futures followed the lead from the US. The yield on the 3-year bond future jumped 11 basis points to 4.21% - its highest close since August 2011. The 10-year futures yield was up 10 basis points to 4.22% - its highest close since January 2014.

Interest rate markets are pricing a 50% chance of a hike from the Reserve Bank (RBA) in August and are fully pricing a total of two hikes by the end of the year.

Foreign Exchange: The Aussie dollar fell sharply in volatile trade despite the rise in domestic yields and solid foreign trade data. The AUD/USD pair traded from a high of 0.6688 to a low of 0.6599, retesting last week's lows. The pair has since regained some ground to trade at 0.6626 at the time of writing.

The US dollar index finished slightly lower after trading between a low of 102.92 and a high of 103.57. The US dollar is currently sitting at around 103.12.

Commodities: Oil prices were broadly unchanged after a volatile session. The US Energy Information Administration (EIA) reported that inventories declined by 1.5 million barrels last week. Saudi Arabia announced they would be increasing prices on oil destined for Europe, the Mediterranean, and Asia. Other commodities fell, including gold, copper, coal, and iron ore.

Australia: The trade surplus widened to $11.8 billion in May. This followed a revised surplus of $10.5 billion in April (which was revised lower from an initial reading of $11.2 billion). The widening of the surplus reflected a 4% increase in exports, which was partly offset by a 2% gain in imports. Gold and energy exports, including natural gas and coal, drove the gains in May. This was despite a fall in commodity prices during the month.

Eurozone: Retail sales were flat for a second consecutive month in May. This was below expectations for a slight gain of 0.2% in the month. In annual terms, sales were down 2.9% over the year to May. Sales also declined 2.9% over the year to April (which was revised from an initial 2.6% fall). On a monthly basis, most major spending categories recorded falls. Mail order & internet sales, food, drink & tobacco, and fuel & special stores all contracted in the month. This was partly offset by a rise in non food products.

United States: Private businesses created 497k jobs in June. This was stronger than the 228k the market was expecting. It was the strongest outcome since February 2022. On the wage front, pay increases slowed for both job changers and job stayers.

The number of people filing for unemployment benefits rose by 12k to 248k over the week ending 1 July. This was broadly in line with the 245k expected by the market. The result remained well below historical averages, another indicator of a tight labour market.

Employers announced 40.7k job cuts in June, down on the 80.8k recorded in May. The tech sector laid off nearly 5k employees. So far this year, employers have announced 458.2k job cuts, the highest first-half total since 2020.

The number of job openings decreased to by 496k to be 9.8m over the month of May, following an increase in April. The number of openings remains elevated compared with historical averages. The largest decreases in job openings were in health care and social assistance, finance and insurance, and other services.

The ISM Services PMI increased to 53.9 index points in June. This was well above the 51.2 points the market was expecting and the 50.3 points recorded in May. Production and new orders drove the solid outcome. Reported price pressures eased with the supplier deliveries index improving.

The trade deficit narrowed to $69bn in May, from $74.4bn in April. The outcome was broadly in line with market expectations. Imports declined by 2.3% and exports fell by 0.8%.

Today's key data and events:

EZ Ger. Indust. Production May exp 0.0% prev 0.3% (4pm)

US Non-farm Payrolls Chg. Jun exp 230k prev 339k (10:30pm)

Unemployment Rate Jun exp 3.6% prev 3.7% (10:30pm)

Avg. Hourly Earnings Jun exp 0.3% prev 0.3% (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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