

Morning Report

Thursday, 10 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,338	0.4%			Last	Overnight Chg		Australia		
US Dow Jones	35,123	-0.5%	10 yr bond	4.01		0.02	90 day BBSW	4.18	0.00	
Japan Nikkei	32,204	-0.5%	3 yr bond	3.73		0.01	2 year bond	3.78	0.00	
China Shanghai	3,401	-0.5%	3 mth bill rate	4.23		0.01	3 year bond	3.73	0.00	
German DAX	15,853	0.5%	SPI 200	7,279.0		4	3 year swap	4.02	0.00	
UK FTSE100	7,587	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.00	-0.02
Commodities (close & change)*			TWI	60.5	-	-	60.5	United States		
CRB Index	282.0	2.8	AUD/USD	0.6542	0.6571	0.6520	0.6531	3-month T Bill	5.27	-0.01
Gold	1,914.46	-10.8	AUD/JPY	93.79	94.11	93.53	93.84	2 year bond	4.81	0.06
Copper	8,313.75	-135.3	AUD/GBP	0.5133	0.5145	0.5124	0.5135	10 year bond	4.01	-0.01
Oil (WTI futures)	84.40	1.5	AUD/NZD	1.0788	1.0809	1.0775	1.0789	Other (10 year yields)		
Coal (thermal)	142.50	-5.8	AUD/EUR	0.5972	0.5986	0.5939	0.5950	Germany	2.50	0.03
Coal (coking)	248.00	0.0	AUD/CNH	4.7352	4.7424	4.7162	4.7204	Japan	0.58	-0.03
Iron Ore	101.45	1.1	USD Index	102.54	102.58	102.29	102.49	UK	4.37	-0.02

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: Markets were relatively quiet and contained as investors await key inflation data from the US tonight, which will provide important insights into how the disinflationary process is progressing.

The yield curve flattened as short-term bond yields rose while long-term bond yields slipped. Equity markets declined as a pullback in big tech stocks and higher energy prices impacted sentiment. The US dollar ended broadly unchanged against major currencies and the Aussie was slightly weaker.

Share Markets: Equity markets closed lower as falls in prices of major tech companies and jumps in oil and European natural gas prices weighed on the market. The S&P 500 ended down 0.7%, the Nasdaq dropped 1.2%, and the Dow Jones lost 0.5%. European markets were more upbeat. The Euro Stoxx 50 closed 0.7% higher, the FTSE 100 was 0.8% higher, and the German DAX gained 0.5%.

The ASX 200 rose 0.4% yesterday. Eight of 11 sectors rose on the day. Financials were strongest performer (1.2%), followed by communication services and IT. Utilities, real estate, and healthcare slipped. Futures are pointing to a positive open today despite the fall in US markets.

Interest Rates: The yield curve flattened as short-term bond yields were higher while longer-term yields were lower. The US 2-year treasury yield

gained 6 basis points, to 4.81%. The 10-year yield was 1 basis point lower, at 4.01%. Interest-rate markets are attaching only a 12% probability to a hike from the Fed at its September meeting and around a 34% chance of one more hike in this cycle. Markets continue to expect aggressive cuts in 2024, with a total of 5 cuts priced throughout the year.

The 3-year Australian government bond yield (futures) rose 1 basis point to 3.73%. The 10-year bond yield (futures) was 2 basis points higher, at 4.01%. Interest-rate markets continue to price no chance of a hike at the RBA's September meeting but have a 40% probability of one more hike sometime in this cycle. The first cut is fully priced by the end of 2024.

Foreign Exchange: The US dollar ended broadly unchanged against major currencies. The USD Index ranged between a low of 102.29 and a high of 102.58, before closing not far from where it opened, at 102.49.

The AUD/USD pair traded in a relatively narrow range and closed 11 pips lower from where it opened. The pair ranged between a low of 0.6520 and a high of 0.6571. It was trading at 0.6531 at the time of writing.

Commodities: Oil prices rose as the West Texas Intermediate (WTI) futures price hit a nine-month high – rising to above US\$84 per barrel. This was

despite data showing that US oil inventories increased by a greater-than-expected 5.85 million barrels last week. Supply concerns amid Russia's continued war in Ukraine and expectations that demand may be stronger-than-expected amid a potential soft-landing scenario impacted prices.

European natural gas futures surged almost 30% amid supply concerns as Australian workers at Chevron and Woodside voted to strike and concerns rose around what this would mean for the supply of natural gas for the European winter. This was the largest move since March 2022. Gold and copper slipped, while iron ore gained.

Australia: There were no major data releases yesterday.

China: The economy slipped into outright deflation as the consumer price index (CPI) fell 0.3% over the year to July. The outcome followed a flat result over the year to June and was slightly less negative than the 0.4% expected by consensus. This was the first time that consumer prices fell since February 2021.

Factory gate prices fell in annual terms for the 10th consecutive month, as the unwinding of supply-chain disruptions continues to impact producer prices. The producer price index (PPI) dropped 4.4% over the year to July, following a 5.4% annual fall in June. The outcome was weaker than consensus expectations, which centred on a 4.0% fall.

The outcomes reflect weakness in domestic demand after the reopening boost following the easing of COVID-zero policies faded quickly. The results will add to calls for authorities to provide further stimulus measures to support households and consumer spending after a range of policies were announced following the July Politburo meeting.

New Zealand: Total card spending fell 0.9% in July as households continue to be impacted by higher interest rates following the Bank of New Zealand's aggressive hiking campaign. The outcome followed a 1.2% gain in June. Retail card spending growth stalled in the month, after a 0.9% gain in the prior month. Total core retail spending slipped 0.1%, reflecting falls in durable goods, which were partly offset by gains in apparel and consumables.

Today's key data and events:

AU Consumer Inflation Expectations Aug prev 5.2% (11am)

US CPI Jul (10:30pm)

m/m exp 0.2% prev 0.2%

y/y exp 3.3% prev 3.0%

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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