

Morning Report

Thursday, 11 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,256	-0.1%			Last	Overnight Chg		Australia			
US Dow Jones	33,531	-0.1%	10 yr bond		3.40	-0.06		90 day BBSW	3.88	0.00	
Japan Nikkei	29,122	-0.4%	3 yr bond		3.03	-0.08		2 year bond	3.26	0.04	
China Shanghai	3,479	-1.2%	3 mth bill rate		3.88	0.00		3 year bond	3.13	0.03	
German DAX	15,896	-0.4%	SPI 200		7,250.0	-12		3 year swap	3.42	0.00	
UK FTSE100	7,741	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.45	0.00	
Commodities (close & change)*			TWI		61.2	-	-	61.2	United States		
CRB Index	262.2	-1.9	AUD/USD		0.6760	0.6818	0.6744	0.6777	3-month T Bill	5.06	-0.02
Gold	2,030.06	0.0	AUD/JPY		91.42	91.69	90.51	91.02	2 year bond	3.91	-0.11
Copper	8,571.25	4.5	AUD/GBP		0.5357	0.5380	0.5347	0.5369	10 year bond	3.44	-0.08
Oil (WTI futures)	72.56	-1.1	AUD/NZD		1.0674	1.0687	1.0633	1.0646	Other (10 year yields)		
Coal (thermal)	167.00	-5.8	AUD/EUR		0.6168	0.6197	0.6154	0.6171	Germany	2.29	-0.06
Coal (coking)	246.00	-3.3	AUD/CNH		4.6823	4.7172	4.6734	4.7019	Japan	0.43	0.00
Iron Ore	100.85	-2.5	USD Index		101.63	101.81	101.22	101.43	UK	3.80	-0.06

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-than-expected annual headline US inflation contributed to improved risk sentiment in financial markets and a sharp decrease in bond yields, as investors adjusted expectations around rate hikes to control inflationary pressures. Short-term and long-term bond yields fell sharply, equity markets rose, and the US dollar weakened against a basket of major currencies. The Australian dollar strengthened in line with a weaker US dollar.

Share Markets: Equity markets mostly ended higher after moving between gains and losses during the day. The S&P 500 closed 0.4% higher and the Nasdaq rose 1.0%. The Dow Jones bucked the trend, closing 0.1% lower.

The ASX 200 closed 0.1% lower yesterday. Futures are pointing to a weak open today.

Interest Rates: Bond yields declined sharply as investors reacted to slightly weaker-than-expected headline inflation results. The US 2-year bond yield initially fell to a low of 3.87% after the release of the CPI data. It later recovered some ground and closed 11 basis points lower, at 3.91%. The 10-year bond yield initially fell to a low of 3.43%, before closing at 3.44% – 8 basis points lower on the day.

Interest-rate markets expect the Fed to be on hold at its June meeting and are currently pricing in a little over 100 basis points of cuts by January 2024. This compares to around a 17% chance of a hike and around 75 basis points of cuts by January 2024

on a few days ago.

Australian bond yields broadly mimicked moves in the US. The 3-year Australian government bond yield (futures) fell 8 basis points, to 3.03%. The 10-year government bond yield (futures) declined 6 basis points, to 3.40%. Interest-rate markets are pricing in no chance of a hike at the RBA's June meeting but are pricing in a slim chance of a hike by September. Looking forward, markets are pricing in around 14 basis points of cuts by the end of 2023.

Foreign Exchange: The US dollar lost ground against most of its G-10 peers, dropping sharply after the release of the CPI data. The USD Index fell from a high of 101.81 immediately before the release of the data, to a low of 101.22 shortly afterwards. It later recovered some ground, closing at 101.43.

The AUD/USD pair strengthened against a weaker US dollar. The pair jumped from a low of 0.6744 immediately before the release, to a high of 0.6818 shortly afterwards. However, it was unable to sustain this level and dropped not long after the initial spike. The pair ended the session at 0.6777 – 17 pips above where it began the session.

Commodities: Oil, coal and iron ore were all weaker on the day, while copper closed higher.

Eurozone: The April consumer price index (CPI) was finalised as unchanged from its preliminary reading. In monthly terms, prices rose 0.4%, to be 7.2% higher over the year to April. The EU harmonised

measure was 0.6% higher in the month and 7.6% higher over the year.

United States: The pace of annual inflation slowed, and annual headline inflation was softer than expected. This buoyed expectations that the Fed will be able to pause at future meetings to assess the implications of hikes to date. The monthly pace of headline inflation came in at 0.4% in April, up from the 0.1% pace in March but in line with consensus expectations. The annual pace slowed to 4.9%, down from March and below consensus expectations, which were both at 5.0%. This was the first reading below 5% in two years. Prices for airfares, hotel stays, appliances, and new cars declined.

However, core measures of inflation were in line with consensus expectations and showed that inflation remains elevated. Core inflation, excluding food and energy, rose 0.4% in the month, in line with consensus expectations and the prior month. In annual terms, core inflation was 5.5%, down from the 5.6% in March but in line with expectations. The shelter component of housing, which is the largest services component and accounts for around a third of the CPI, continued to slow. This reflects a weakening in market rents gradually flowing through to slower housing inflation. Shelter rose 0.4% in the month, the slowest pace in over a year. This was down from 0.6% in March and 0.8% in February.

Today's key data and events:

JP Current Account Mar exp ¥2.9tr prev ¥2.2tr (9:50am)
AU MI Cons. Inflation Expectations May prev 4.6% (11am)
CN CPI Apr y/y exp 0.3% prev 0.7% (11:30am)
CN PPI Apr y/y exp -3.3% prev -2.5% (11:30am)
UK BoE Policy Decision (9pm)
Bank Rate exp 4.50% prev 4.25%
US PPI Final Apr y/y exp 2.5% prev 2.7% (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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