

Morning Report

Tuesday, 16 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,267	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,349	0.1%	10 yr bond	3.47			0.04	90 day BBSW	3.90	0.01
Japan Nikkei	29,626	0.8%	3 yr bond	3.15			0.05	2 year bond	3.26	0.09
China Shanghai	3,470	1.2%	3 mth bill rate	3.96			0.01	3 year bond	3.12	0.10
German DAX	15,917	0.0%	SPI 200	7,294.0			-1	3 year swap	3.53	0.08
UK FTSE100	7,778	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.43	0.10
Commodities (close & change)*			TWI	60.6	-	-	60.6	United States		
CRB Index	261.7	3.7	AUD/USD	0.6646	0.6709	0.6642	0.6700	3-month T Bill	4.99	-0.05
Gold	2,016.53	0.0	AUD/JPY	90.20	91.32	90.18	91.17	2 year bond	4.01	0.02
Copper	8,218.25	-6.0	AUD/GBP	0.5338	0.5363	0.5335	0.5349	10 year bond	3.50	0.04
Oil (WTI futures)	71.11	1.1	AUD/NZD	1.0725	1.0765	1.0722	1.0737	Other (10 year yields)		
Coal (thermal)	166.95	-0.7	AUD/EUR	0.6126	0.6168	0.6121	0.6162	Germany	2.31	0.03
Coal (coking)	237.67	0.5	AUD/CNH	4.6329	4.6682	4.6292	4.6634	Japan	0.41	0.02
Iron Ore	104.20	-0.8	USD Index	102.70	102.75	102.38	102.44	UK	3.82	0.04

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Uncertainty surrounding the US debt ceiling kept markets under wraps overnight. Mixed comments from Fed officials and a weak manufacturing report from the New York Fed also drove price action. US equities eked out gains, while treasury yields rose across the curve. The US dollar was weaker against all its G10 peers, save the Yen.

Share Markets: US equities were broadly higher overnight but remain firmly within their recent trading range. The S&P 500 gained 0.3%, while the Dow Jones and the NASDAQ were up 0.1% and 0.7%, respectively.

The ASX 200 gained 0.1% yesterday, unwinding a 0.3% fall at the open. Healthcare and material stocks were particularly buoyant. Futures are pointing to some modest strength this morning.

Interest Rates: Treasury yields were higher across the curve. The 2-year treasury yield rose 2 basis points to 4.01%, while the 10-year yield was up 4 basis points to 3.50%.

Interest rate markets are pricing an 85% probability of a pause from the Fed in June and are pricing in 50 basis points of cuts by the end of the year.

Aussie bond futures followed the lead from US treasuries. The 3-year futures yield rose 5 basis points to 3.14% and the 10-year futures yield gained 4 basis points to 3.47%.

Interest rate markets are pricing just over a 40%

chance that the Reserve Bank (RBA) hikes rates again by August and see a similar chance of a cut this year.

Foreign Exchange: The US dollar fell from a high of 102.75 to a low of 102.38, before retracing slightly to trade around 102.44 at the time of writing.

The Aussie gained on the back of the weaker US dollar. The AUD/USD pair traded from a low of 0.6642 to a high of 0.6709 and is currently trading slightly below that level at 0.6700. The Aussie dollar broadly outperformed, finishing slightly higher against the Pound, euro, and Yen.

Commodities: The US announced plans to buy as much as 3 million barrels of crude to refill its strategic petroleum reserve (SPR) after releasing more than 200 million barrels last year to help combat high energy prices. The announcement prompted a rise in West Texas Intermediate (WTI) crude futures, which rose to US\$71.11 per barrel.

Gold was flat, while copper and iron ore softened.

Australia: There were no major economic data releases yesterday.

Europe: Industrial production plunged 4.1% in March, compared to expectations for a milder 2.8% decline. This followed a 1.5% gain in February and trimmed annual growth to -1.4% from 2.0% previously. The fall was primarily driven by weakness in the mining and manufacturing sectors.

United States: The Speaker of the house of reps, Kevin McCarthy, was downbeat about the progress on a resolution to the debt ceiling. The speaker said “we are nowhere near reaching a conclusion” following staff-level meetings which he labelled “not productive at all”. Meanwhile, Treasury Secretary, Janet Yellen, warned that the US was already paying the price of stalled negotiations. Yellen noted “we have already seen Treasury’s borrowing costs increase substantially for securities maturing in early June”.

Minneapolis Fed boss, Neel Kashkari, warned that the Fed might need to tighten more, even as other Fed officials signalled a pause in June. Raphael Bostic, the Atlanta Fed President, was one of those favouring a hold. However, Bostic pushed back on bets for cuts this year. Chief of the Chicago Fed, Austan Goolsbee, warned that the Fed should be “extra mindful” of the impact of rate hikes on credit conditions and stress in the banking sector when making its next policy decision.

The New York Fed Empire manufacturing index tumbled from 10.8 in April to -31.8 in May, the weakest reading in four months. The 42.6 point slump was the largest monthly fall since April 2020. New orders were particularly weak, pointing to a softening in demand, while price pressures remain elevated according to the survey.

Today’s key data and events:

AU Consumer Sentiment prev 85.8 (10:30am)
 AU RBA Board Meeting Minutes (11:30am)
 CH Indust. Product. Apr y/y exp 10.9% prev 3.9% (12pm)
 CH Retail Sales Apr y/y exp 21.9% prev 10.6% (12pm)
 UK ILO Unemploy. Rate Mar exp 3.8% prev 3.8% (4pm)
 EZ EU ZEW Expectations May prev 6.4 (7pm)
 EZ GDP Q1 Prel. exp 0.1% prev 0.1% (7pm)
 EZ Trade Balance Mar prev -€0.1bn (7pm)
 US Retail Sales Apr exp 0.8% prev -0.6% (10:30pm)
 US Indust. Production Apr exp 0.0% prev 0.4% (11:15pm)
 US Business Inventories Mar exp 0.0% prev 0.2% (12am)
 US NAHB Housing Index May exp 45 prev 45 (12am)

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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