

Morning Report

Monday, 17 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,303	0.8%			Last	Overnight Chg		Australia		
US Dow Jones	34,509	0.3%	10 yr bond	4.00		0.01	90 day BBSW	4.29	0.00	
Japan Nikkei	32,391	-0.1%	3 yr bond	3.91		0.02	2 year bond	3.97	-0.06	
China Shanghai	3,394	0.0%	3 mth bill rate	4.41		0.01	3 year bond	3.91	-0.06	
German DAX	16,105	-0.2%	SPI 200	7,264.0		-2	3 year swap	4.25	0.07	
UK FTSE100	7,435	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.00	-0.05
Commodities (close & change)*			TWI	62.3	-	-	62.3	United States		
CRB Index	270.8	0.1	AUD/USD	0.6887	0.6895	0.6831	0.6839	3-month T Bill	5.20	-0.03
Gold	1,955.21	-5.3	AUD/JPY	95.09	95.39	94.55	94.89	2 year bond	4.77	0.14
Copper	8,663.25	-26.8	AUD/GBP	0.5245	0.5252	0.5213	0.5224	10 year bond	3.83	0.07
Oil (WTI futures)	75.42	-1.5	AUD/NZD	1.0779	1.0785	1.0726	1.0743	Other (10 year yields)		
Coal (thermal)	133.70	5.4	AUD/EUR	0.6136	0.6140	0.6080	0.6090	Germany	2.51	0.03
Coal (coking)	233.75	2.3	AUD/CNH	4.9258	4.9283	4.8888	4.8956	Japan	0.48	0.01
Iron Ore	114.00	-0.2	USD Index	99.75	100.02	99.58	99.96	UK	4.44	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: The data released on Friday continued to support the prospect of a soft landing – US consumer sentiment was higher than expected, US import and export prices came in lower than expected. However, consumers' longer term inflation expectations ticked up slightly. This suggests that rates may need to be held at restrictive levels for longer. US bond yields and the US dollar were higher, while equities were mixed.

Share Markets: US equities were mixed on Friday. Financial shares were mostly lower following quarterly reports that kicked off earnings season. However, US equities were firmly higher over the week. The share market rally was underpinned by softer than expected inflation outcomes, which allowed markets to price in a soft landing for the US economy.

The Dow increased by 0.3% to be 2.3% higher through the week. The S&P 500 was down by 0.1% on the day but made a weekly gain of 2.4%. The Nasdaq decline by 0.2% but was 3.3% higher over the week.

The ASX 200 rose for the fourth consecutive day, closing 0.8% higher on Friday. Nine out of eleven sectors were higher, led by materials stocks. The ASX 200 was 3.7% higher over the week – the strongest weekly gain since November 2022.

Interest Rates: US bond yields increased across the

yield curve, partly retracing the sharp declines recorded earlier last week. The US 2-year bond yield increased by 14 basis points to 4.77%. The 10-year bond yield increased by 7 basis points to 3.83%.

Interest-rate markets are now pricing one more rate hike from the US Fed, with a small chance of another hike before the end of the year. The first full rate cut is now priced in to occur mid-way through 2024.

Broadly consistent with the movements in the US, the Australian 3-year bond (futures) yield increased by 2 basis points to 3.91%. The 10-year (futures) yield increased by 1 basis point to 4.0%.

Interest rate markets are pricing a 31% chance of a 25-basis point hike when the Reserve Bank meets in August. Markets are pricing a peak rate of around 4.38% by December 2023 – that is one more hike, with a slight chance of another.

Foreign Exchange: Supported by the higher bond yields, the US dollar index (DXY) reversed trend and edged higher on Friday. The DXY reached a low of 99.58, before retracing some of this fall to finish at 99.96. However, the DXY was 2.3% lower over the week.

On the back of a stronger US dollar and continued concerns over the strength of the recovery in China, the Aussie was lower, reaching a low of 0.6831 and remaining around this level. However, the AUD/USD

pair was around 2.2% higher through the week.

Commodities: Commodities generally finished lower, except for coal. The West Texas Intermediate (WTI) future remains below US\$80 per barrel (US\$75.42).

Australia: There were no significant data releases on Friday. The Federal Treasurer announced that Ms Michelle Bullock, the current Reserve Bank Deputy Governor, will take over the reins from the outgoing Governor, Dr Phil Lowe, in September. As Deputy Governor, Ms Bullock currently sits on the Reserve Bank Board. The market reaction has been negligible given that this appointment points to continuity when it comes to the current cycle. Ms Bullock will implement and help foster the changes recommended in the RBA review handed down earlier this year.

Eurozone: The trade deficit narrowed to -€0.9bn in May from an upwardly revised deficit of -€8.0bn in April (initially estimated was -€7.1bn). Exports increased by 2.9% over the month, while imports declined by 0.1%. The fall in import shows that domestic demand is slowing.

Japan: Industrial production declined by 2.2% over May, compared with the preliminary read of a 1.6% fall over the month. This was the first fall in industrial output since January, mainly driven by lower motor vehicles output, electrical machinery, and information and communication electronics equipment, and chemicals.

United States: The University of Michigan consumer sentiment index increased for a second consecutive month to 72.6 points in July from 64.4 points in June. This was the highest level since September of 2021 and well above the 65.5 points the market was expecting. Both current economic conditions and consumer expectations over future conditions improved. Inflation expectations for the year ahead (3.4% vs 3.3%) and the five-year outlook (3.1% vs 3%) were both broadly unchanged from the previous month.

Import prices declined by 0.2% over June, to be 6.1% lower over the year. Import prices have fallen in 5 of the first 6 months of 2023. Excluding fuel, import prices declined by 0.4% over June, after being unchanged in May. Lower prices for nonfuel industrial supplies and materials, consumer goods, capital goods, foods, feeds, and beverages, and automotive vehicles all contributed to the overall decline. Import price deflation will feed through into domestic price disinflation over the months ahead.

Export prices declined by 0.9% over June, after falling 1.9% over May. Prices for agricultural exports fell 1.6% in June following a 2.4% fall in May. Non-agricultural prices declined by 0.9% in June following a 1.9% decline in May. Lower prices for non-agricultural industrial supplies and materials, and foods more than offset higher prices for capital goods, consumer goods, and automotive vehicles.

Today's key data and events:

CH GDP Q2 y/y prev 4.5% (12pm)
CH Industrial Production Jun y/y prev 3.5% (12pm)
CH Retail Sales Jun y/y prev 12.7% (12pm)
UK Rightmove House Prices Jul prev 0.0% (9:01am)
US NY Empire Mfg Jul prev 6.6 (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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