

Morning Report

Monday, 31 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,404	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	35,459	0.5%	10 yr bond	3.97				90 day BBSW	4.28	0.01
Japan Nikkei	32,759	-0.4%	3 yr bond	3.79				2 year bond	3.94	0.08
China Shanghai	3,434	1.8%	3 mth bill rate	4.32				3 year bond	3.89	0.08
German DAX	16,470	0.4%	SPI 200	7,376.0				3 year swap	4.17	-0.08
UK FTSE100	7,694	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.07	0.14
Commodities (close & change)*			TWI	62.1	-	-	62.1	United States		
CRB Index	280.5	0.3	AUD/USD	0.6708	0.6714	0.6623	0.6651	3-month T Bill	5.25	-0.02
Gold	1,959.49	13.5	AUD/JPY	93.55	94.22	91.80	93.84	2 year bond	4.87	-0.05
Copper	8,648.24	96.2	AUD/GBP	0.5242	0.5247	0.5171	0.5173	10 year bond	3.95	-0.05
Oil (WTI futures)	80.58	0.5	AUD/NZD	1.0849	1.0856	1.0792	1.0806	Other (10 year yields)		
Coal (thermal)	148.00	-3.9	AUD/EUR	0.6112	0.6114	0.6026	0.6036	Germany	2.49	0.02
Coal (coking)	237.50	-3.5	AUD/CNH	4.8113	4.8125	4.7441	4.7603	Japan	0.57	0.12
Iron Ore	106.80	0.1	USD Index	101.67	102.04	101.36	101.70	UK	4.33	0.02

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Positive wages and inflation data in the US boosted optimism of a soft landing in the world's largest economy, upping speculation that the Fed is finished with rate hikes. The positive news prompted a risk-on mood in markets on Friday night, leading to a rally equities and bonds. The US dollar finished broadly unchanged.

Share Markets: Equities jumped on the positive economic data. The S&P 500 rose 1.0% in Friday's trade to close the week 1.0% higher. The Dow Jones and the NASDAQ rose 0.5% and 1.9%, respectively and both finished the week in the green.

The ASX 200 fell 0.7% on Friday as weaker-than-expected retail trade data provided clearer evidence of weakening household consumption. Futures are pointing to a solid open this morning on the back of the US.

Interest Rates: US treasury yields fell across the curve as a traders re-evaluated expectations for Fed rate hikes. Both the 2-year and the 10-year yield fell 5 basis points to 4.87% and 3.95%, respectively.

Interest rate markets see a 40% chance of another rate hike by the end of the year and are pricing cuts by mid-2024.

Aussie bond futures moved in the same direction. The yield on the 3-year and 10-year bond futures slipped 9 basis points to 3.79% and 3.97%, respectively.

Interest rate markets see just a 10% chance of a hike from the Reserve Bank (RBA) tomorrow. Market pricing still favours one final increase in the cash rate, though the timing is uncertain.

Foreign Exchange: The Aussie dollar tumbled to a 3-week low of 0.6623. The pair retraced some of the falls to close at 0.6650 but finished well off its intra-day high of 0.6714.

The US dollar round-tripped via a low of 101.36 and high of 102.04 to finish the day broadly unchanged at 101.70.

The Yen slid sharply against the US dollar as the Bank of Japan wrong-footed markets with an underwhelming tweak to its yield curve policy. The USD/JPY surged from a low of 138.07 to a high of 141.18 and is currently trading around that level.

Commodities: Commodity prices were broadly firmer. Gold, copper and iron ore gained. The West Texas Intermediate (WTI) oil future also rose, closing above US\$80 per barrel – its highest close since April.

Australia: Retail spending dropped 0.8% in June, unwinding a 0.8% gain in May – led by declines in discretionary spending. This reflects a continued slowdown as elevated cost-of-living pressures and interest rates bite, in addition to unwinding of a base effect from stronger sales in May.

An underlying slowing is evident. On a rolling six-

month basis, spending has been little changed since November 2022. Over the three months to June, spending rose 0.4%. Importantly, this doesn't account for continued price increases or strong population growth. As a result, real retail spending likely contracted materially in the quarter.

On a per capita basis, spending declined 1.0% in June and 0.3% over the quarter. These numbers would be weaker after accounting for price increases.

Department stores (-5.0%), other retailing (-2.2%), and clothing & footwear (-2.2%) recorded the largest falls, as all sectors, except food, declined. Spending at cafes & restaurants appears to be pulling back, as it slipped in June to be 0.3% below May's record high.

The producer price index (PPI) rose 0.5% in the June quarter, slowing from a 0.7% gain in the March quarter. This was the softest quarterly increase since the March quarter of 2021. In annual terms, growth slowed to 3.9% from 5.2% previously, representing solid progress from a peak of 6.4% in the September quarter of 2022. The slow down in producer price inflation is positive news for the inflation outlook and points to further disinflation progress, especially for goods prices. The consumer price index (CPI) has generally lagged the PPI by about one-quarter during this cycle.

Eurozone: Consumer confidence was finalised unchanged at -15.1 in July, a slight improvement on June's reading of -16.1. Consumer confidence remains incredibly weak, though the mood is considerably more buoyant than the lows struck in late 2022.

Economic confidence deteriorated slightly, easing to 94.5 in July from 95.3 in June. This was the weakest reading since October last year.

New Zealand: Consumer confidence slipped to 83.7 in July from 85.5 in June. Sentiment has oscillated at low levels recently as households grapple with high inflation and rapid policy tightening.

United States: Minneapolis Fed boss, Neel Kashkari said that the Fed "may or may not" hike again in September echoing the rhetoric of chair Powell at last week's meeting. Kashkari noted that the inflation outlook is "quite positive" but said that "we don't want to declare victory".

The employment cost index rose 1.0% in the June quarter, coming in below expectations for a 1.1% gain. The quarterly increase represents a moderation in the pace of labour cost growth from 1.2% over the March quarter and was the softest

increase since the June quarter of 2021. The result is a further sign of moderating wage pressures despite no material softening in labour market conditions, boosting optimism for a soft landing.

Personal income growth slowed to 0.3% in June from 0.5% in May. This was the softest monthly increase since December 2022.

Personal spending gained 0.5% in June, accelerating from a revised 0.2% gain rise in May. Personal spending also surprised to the upside in real terms (i.e. excluding price increases), jumping 0.4% in the month following a 0.1% rise in May.

The personal consumption expenditure (PCE) deflator, the Feds preferred measure of inflation, met expectations in June rising 0.2% in the month to be 3.0% higher in annual terms. Annual growth slowed from 3.8% the prior month with June's reading marking the slowest annual rate of PCE inflation since March 2021.

Core PCE, which strips out volatile food and energy components, also printed broadly as expected gaining 0.2% in the month to be 4.1% higher over the year. Annual growth slowed from 4.6% in the prior month and marked the slowest annual increase since September 2021.

The University of Michigan consumer confidence index was finalised at 71.6 in July. This was slightly below the preliminary reading of 72.6 but still marked a solid improvement on June's reading of 64.4 and was the strongest read since October.

Today's key data and events:

JN Industrial Production Jun Prel. exp 2.4% prev -2.2% (9:50am)
 NZ ANZ Business Confidence Jul prev -18.0 (11am)
 AU MI Inflation Jul y/y prev 5.7% (11am)
 AU Priv. Sector Credit Jun exp 0.4% prev 0.4% (11:30am)
 CH Mfg PMI Jul exp 49.0 prev 49.0 (11:30am)
 CH Non-Mfg PMI Jul exp 53.0 prev 53.2 (11:30am)
 EZ GDP Q2 exp 0.2% prev 0.0% (7pm)
 EZ CPI Jul Prel. exp -0.1% prev 0.3% (7pm)
 US MNI Chicago PMI Jul (11:45pm)
 US Dallas Fed Mfg Jul prev -23.2 (12:30am)

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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