

Monday, 4 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,278	-0.4%			Last	Overnight Chg		Australia			
US Dow Jones	34,838	0.3%	10 yr bond		4.04	0.03		90 day BBSW	4.13	0.00	
Japan Nikkei	32,711	0.3%	3 yr bond		3.73	0.01		2 year bond	3.78	-0.01	
China Shanghai	3,285	0.4%	3 mth bill rate		4.14	0.00		3 year bond	3.73	-0.01	
German DAX	15,840	-0.7%	SPI 200		7,274.0	31		3 year swap	4.02	0.02	
UK FTSE100	7,465	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.00	-0.02	
Commodities (close & change)*			TWI		60.6	-	-	60.6	United States		
CRB Index	284.4	2.5	AUD/USD		0.6485	0.6522	0.6439	0.6449	3-month T Bill	5.27	-0.04
Gold	1,940.06	-0.1	AUD/JPY		94.38	94.43	93.86	94.30	2 year bond	4.88	0.02
Copper	8,497.25	77.3	AUD/GBP		0.5117	0.5136	0.5099	0.5122	10 year bond	4.18	0.07
Oil (WTI futures)	85.80	0.3	AUD/NZD		1.0869	1.0872	1.0833	1.0848	Other (10 year yields)		
Coal (thermal)	159.00	0.5	AUD/EUR		0.5981	0.5996	0.5951	0.5986	Germany	2.55	0.08
Coal (coking)	271.50	1.2	AUD/CNH		4.7184	4.7273	4.6822	4.6884	Japan	0.63	-0.02
Iron Ore	116.00	2.0	USD Index		103.62	104.29	103.27	104.26	UK	4.43	0.07

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 US labour market cooled in August, raising hopes that the Federal Reserve is successfully orchestrating a soft landing for the world's largest economy and rates have peaked. US share markets and US bond yields lifted on the news in thin trading. US markets are closed for a national holiday today.

Share Markets: US share markets ended higher in thin trading ahead of a long weekend in the US. The S&P rose 0.2%, the Dow lifted by 0.3% and the Nasdaq was flat.

The ASX200 on Friday ended 0.4% weaker.

Interest Rates: US bond yields lifted across the curve with the 2-year up 2 basis points and the 10-year rising 7 basis points, leading to a steepening of the yield curve. The market remains convinced the Fed will not be raising rates at its policy meeting this month. Following Friday's jobs data release, futures markets also cut the probability of a rate rise in the US at the subsequent November meeting from just below 50% to less than 40%.

Foreign Exchange: The AUD/USD pair were mostly sidelined in Friday night trading ahead of a US holiday today and a big week of data in Australia, as well as a Reserve Bank board meeting tomorrow. Since reaching a low of 0.6365 on August 17, the AUD/USD has stayed in a narrow trading band and Friday night's trading was no exception. The AUD

traded a narrow range of 0.6438 to 0.6522. Notably it is the second attempt in three days the AUD/USD has made to try and pierce 0.6522 and failed.

Commodities: Oil firmed and gold lost some ground.

Australia: The value of new housing finance, ex refinancing, fell 1.2% in July. This was the second consecutive monthly fall, after a 1.6% slide in June. Despite these falls, activity remains 5.8% above the February low, which coincides with the trough in national dwelling prices.

Owner-occupier lending fell 1.9%, after June's 3.1% drop. Weakness was evident in lending for construction of new dwellings (-5.7%), amid continued challenges for the industry. Finance for the purchase of new (-1.2%) and established (-0.4%) dwellings also slipped.

Investor lending recorded a slight (-0.1%) fall, with large deviations across states. Queensland (6.8%) surged in the month, while investor lending in the largest states of NSW (-0.8%) and Victoria (-2.6%) fell. Other states and territories were mixed.

Households continue to shop around for a better deal. Refinancing activity jumped 5.4% in July, hitting a new record high of over \$21.5 billion. The ABS suggests a "portion" of the applications processed in July were lodged before lenders ended attractive cashback offers on 30 June.

Dwelling prices rose 0.8% in August, an acceleration on July's 0.7% gain. Since bottoming out in February, national dwelling prices are up 4.9%. While the recovery is being led by capital cities (+6.0%), it has now become broad based with price gains recorded in the regions (+1.6%).

New listings have increased by an uncharacteristically large 12.9% over the past two months. However, this increase in supply has been absorbed by the market (absorption of new listings remains above 100%). The cash rate remaining on hold for the second consecutive month in August no doubt played a role, giving potential buyers the confidence that rates are at or close to the peak.

The imbalance in the housing market has largely underpinned the turnaround in prices. The key question going forward is whether this imbalance will continue or whether supply will increase sufficiently to outstrip demand. We expect this imbalance to improve but remain in place. This will support dwelling prices and reduce the risk of a "double dip downturn."

On the supply side, pressure on rental yields coupled with stretched affordability particularly as fixed rate mortgages roll over onto higher variable rates, is likely to lead to a further pickup in new listings. Given the strength in the labour market we expect this pick up to be orderly.

On the demand side, with the cash rate at or close to the peak, nominal income levels picking up, reports of intergenerational wealth transfers allowing younger Australians to get into the market and ongoing strong population growth, we expect demand to largely absorb supply, but it could get bumpy month to month the longer rates remain restrictive.

Given these supply and demand dynamics, we see a scenario where dwelling price gains moderate over time but continue nonetheless, even if the Reserve Bank is on an extended pause – in other words, the boost from the pause is likely to be short lived.

United States: Friday's figures revealed an uptick in the unemployment rate, subdued jobs growth and wage rises back at pre-Covid rates. The Bureau of Labor Statistics data showed that unemployment edged up to 3.8% last month compared with economists' predictions that it would remain steady at near multi-decade lows at 3.5%. The economy created 187,000 new non-farm jobs in August — higher than consensus forecasts of 170,000, but the third consecutive month below the 200,000 mark. Totals for the previous two months were also

revised lower by a cumulative 110,000.

Monthly wage growth of 0.2% was also lower than forecast, though the year-on-year growth rate of 4.3% remained well above levels considered consistent with the Fed's 2 per cent inflation target.

In other data, the ISM manufacturing index rose to 47.6 in August, from 46.4 in July. The result was better than consensus expected (47.0). There were gains in production (to 50.0 from 47.3), employment (to 48.5 from 44.4) export orders (to 46.5 from 46.2), and prices paid (to 48.4 from 42.6).

Today's key data and events:

NZ Terms of Trade Q2 (8:45am)

AU Melb Institute Inflation Gauge Aug prev 0.8% (11am)

AU Business Indicators Q2 (11:30am)

Inventories prev 1.2%

Company Operating Profits prev 0.5%

EZ Sentix Inv. Confid. Sep exp -20.0 prev -18.9 (6:30pm)

US National Holiday, Markets Closed

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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