

Morning Report

Tuesday, 5 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,319	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	34,838	Closed	10 yr bond	4.12		0.04		90 day BBSW	4.13	-0.01
Japan Nikkei	32,939	0.7%	3 yr bond	3.81		0.02		2 year bond	3.84	0.05
China Shanghai	3,331	1.4%	3 mth bill rate	4.15		0.01		3 year bond	3.80	0.07
German DAX	15,825	-0.1%	SPI 200	7,277.0		-19		3 year swap	4.05	0.00
UK FTSE100	7,453	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.09	0.09
Commodities (close & change)*			TWI	60.4	-	-	60.4	United States		
CRB Index	284.4	2.5	AUD/USD	0.6449	0.6481	0.6448	0.6462	3-month T Bill	5.27	Closed
Gold	1,942.69	2.6	AUD/JPY	94.30	94.72	94.20	94.65	2 year bond	4.88	Closed
Copper	8,497.25	77.3	AUD/GBP	0.5122	0.5137	0.5113	0.5117	10 year bond	4.18	Closed
Oil (WTI futures)	85.91	0.4	AUD/NZD	1.0849	1.0891	1.0848	1.0878	Other (10 year yields)		
Coal (thermal)	159.50	0.5	AUD/EUR	0.5986	0.6006	0.5981	0.5986	Germany	2.58	0.03
Coal (coking)	271.67	0.2	AUD/CNH	4.6886	4.7089	4.6870	4.7014	Japan	0.64	0.01
Iron Ore	115.05	0.4	USD Index	104.27	104.27	104.03	104.11	UK	4.46	0.04

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: Global market movements were subdued as US markets were closed for the Labor Day public holiday. Outside the US, bond yields in key European economies rose, equity markets were broadly weaker, and the US dollar traded in a narrow range and lost some ground against a basket of major currencies.

Share Markets: US markets were closed. European markets ended the session broadly lower. The Euro Stoxx 50 and the German DAX both lost 0.1%, while the UK FTSE and French CAC 40 both fell 0.2%.

The ASX 200 closed 0.6% higher yesterday. The gain reflected a more than 1% rise in material and energy stocks. Financials and real estate also closed higher. All other sectors were lower on the day. Futures are pointing to a weak open today, taking the lead from European markets.

Interest Rates: US bonds didn't trade as the physical bond market was closed. However, short- and long-term bond yields in key European markets rose. In Germany, the 2-year and 10-year bund yield both closed 3 basis points higher, to 3.01%, and 2.58%, respectively. Yields were also higher in the UK, with 2-year gilt yields up 3 basis points, to 5.17%, while 10-year gilt yields gained 4 basis points, to 4.46%.

Australian government bond yields (futures) rose in line with gains in Europe. The 3-year (futures) yield

was 2 basis points higher, at 3.81%. The 10-year (futures) yield rose 4 basis points, to 4.12%.

The Reserve Bank (RBA) meets today for Philip Lowe's final meeting as Governor. The RBA is almost universally expected to keep the cash rate on hold at 4.10%. Beyond the September meeting, financial markets have around a 20% probability of another hike by early next year. This has been decreasing over the past week and is down from over 50% a week ago. Markets have almost a full 25-basis-point cut priced by the end of 2024.

Foreign Exchange: The US dollar traded in a narrow range and closed slightly lower in a quieter session. The USD Index ranged between a low of 104.03 and a high of 104.27, before settling at 104.11.

The AUD/USD similarly traded in a narrow range and made little ground in either direction. The pair ranged between a low of 0.6448 and a high of 0.6481. It was trading at 0.6462 at the time of writing. Today, markets will be looking to local June quarter balance of payments data, the September RBA decision, and the release of Chinese services PMI data for direction.

Commodities: Oil prices rose as previously announced supply cuts from Russia and the expectations that further supply cuts will be forthcoming from OPEC+ members led to continued strength in prices. The West Texas Intermediate

(WTI) futures price rose to its highest level since November 2022. Other commodity prices were broadly higher, including copper, gold, coal, and iron ore.

Australia: Business profits plunged 13.1% in the June quarter in a further sign of a slowing economy. Mining profits plummeted 21.3% as commodity prices dropped sharply (-13.7%). Non-mining profits fell 5.0% in the quarter but were 5.1% higher compared to a year ago.

Outside the mining sector, manufacturing (-8.9%), transport, postal & warehousing (-11.0%), rental, hiring & real estate (-11.8%), and wholesale trade (-6.8%) were the largest contributors to weakness in the quarter. Nine of 15 sectors reported falls in quarterly profits.

Businesses began running down the large stock of inventories that have been built up as supply-chain disruptions eased. Inventories fell 1.9% in the quarter – the largest quarterly drop since the June quarter of 2020. This was led by mining (-5.2%), wholesale (-2.3%) and retail (-2.1%) trade, and accommodation & food (-1.0%).

The change in inventories is expected to detract 1.0 percentage points from June quarter growth. This is material and opens up the risk of a weak or potentially negative GDP print on Wednesday. Other partial indicators released later today will help solidify the picture.

Growth in wages & salaries continues to moderate – a further sign of an easing in labour market pressures as labour supply continues to outpace demand. Wages & salaries rose 1.8%, the slowest pace since the September quarter of 2021.

While volatile on a quarterly basis, profit margins for many services industries declined for a second consecutive quarter, including accommodation & food. This suggests businesses are finding it more difficult to fully pass through costs as higher interest rates weigh on demand.

The Melbourne Institute monthly inflation gauge rose to 6.1% in annual terms in August – its highest annual level in four months. This followed a 5.4% annual rise in July. In monthly terms, the index rose 0.2%, down from a 0.8% rise in July. The move higher in annual inflation was driven by higher fuel prices.

Eurozone: Investor confidence slipped further into negative territory in September. The Sentix investor confidence survey fell to -21.5 in September, from -18.9 in August. This was below consensus expectations of -20.0. Expectations for the future

and views on the current situation both fell from the previous month, falling to -21.0 and -22.0, respectively.

New Zealand: The terms of trade rose 0.4% in the June quarter, up from a 1.5% fall in the March quarter. The gain was above consensus expectations, which centred on a 0.1% fall. Export prices slipped 0.6% in the quarter, while import prices fell a larger 1.0%, leading to an increase in the terms of trade in the quarter. Looking at the volume of trade in the quarter, export volumes were 6.8% higher, while import volumes declined 2.8%.

Today's key data and events:

AU Current Account Q2 exp \$4.0bn prev \$12.3bn (11:30am)

AU RBA Board Meeting (2:30pm)

Cash Rate Target exp 4.10% prev 4.10%

CN Caixin Services PMI Aug exp 53.5 prev 54.1 (11:45am)

EZ Markit Services PMI Aug Final exp 48.3 prev 48.3 (6pm)

EZ PPI Jul y/y exp -7.6% prev -3.4% (7pm)

UK Markit Serv. PMI Aug Final exp 48.7 prev 48.7 (6:30pm)

US Factory Orders Jul exp -2.5% prev 2.3% (12am)

US Durable Goods Orders Jul Final prev -5.2% (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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