

Morning Report

Tuesday, 11 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,004	-0.5%			Last	Overnight Chg		Australia		
US Dow Jones	33,944	0.6%	10 yr bond	4.21				90 day BBSW	4.31	0.01
Japan Nikkei	32,190	-0.6%	3 yr bond	4.14				2 year bond	4.29	-0.02
China Shanghai	3,358	0.2%	3 mth bill rate	4.48				3 year bond	4.21	-0.02
German DAX	15,673	0.4%	SPI 200	7,006.0			43	3 year swap	4.46	0.00
UK FTSE100	7,274	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.29	0.03
Commodities (close & change)*			TWI	61.6	-	-	61.6	United States		
CRB Index	264.4	-0.1	AUD/USD	0.6690	0.6696	0.6624	0.6676	3-month T Bill	5.20	-0.02
Gold	1,925.35	0.3	AUD/JPY	95.10	95.48	94.11	94.35	2 year bond	4.86	-0.09
Copper	8,369.25	111.3	AUD/GBP	0.5213	0.5217	0.5181	0.5192	10 year bond	3.99	-0.07
Oil (WTI futures)	72.99	-0.9	AUD/NZD	1.0781	1.0788	1.0733	1.0747	Other (10 year yields)		
Coal (thermal)	144.10	-4.1	AUD/EUR	0.6102	0.6105	0.6052	0.6069	Germany	2.64	0.00
Coal (coking)	226.33	-1.0	AUD/CNH	4.8374	4.8426	4.8006	4.8263	Japan	0.46	0.03
Iron Ore	105.05	1.4	USD Index	102.28	102.56	101.95	101.96	UK	4.64	-0.01

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: Investors focussed on comments from Federal Reserve members during a session with few major economic data releases. Three of four Fed members (Barr, Daly, and Mester) echoed the need for more hikes to control inflation. Bostic was the odd one out and called for more patience to assess the impacts of tightening to date.

Bond yields declined, the US dollar fell against a basket of major currencies, and equity markets closed in the green.

Share Markets: Equity markets finished higher as investors assessed comments from Fed members. The S&P 500 ended 0.2% higher, the Nasdaq gained 0.2%, and the Dow Jones was 0.6% higher.

The ASX 200 closed 0.5% lower yesterday. 10 of 11 sectors declined. Consumer staples was the worst performer, down 1.0%. Industrial, health care, materials, and real estate were all down more than 0.5%. IT bucked the trend and ended 0.2% higher. Futures are pointing to a positive open today following the lead from the US.

Interest Rates: Bond yields ended lower despite talk of further hikes being needed from most of the Fed speakers. The US 2-year yield closed 9 basis points lower, at 4.86%. The US 10-year bond yield was 7 basis points lower, at 3.99%. Interest-rate markets have almost fully priced (91% probability) a 25-basis-point hike at the Fed's July meeting and

expect the Fed funds rate to peak at around 5.42% in late 2023.

Australian government bond yields mimicked moves in the US. The 3-year Australian government bond yield (futures) fell 7 basis points, to 4.14%. The 10-year yield (futures) was 8 basis points lower, at 4.21%. Interest-rate markets are pricing around a 37% chance of a 25-basis-point hike at the RBA's August meeting, down from around 50% on Friday last week. Looking beyond August, markets continue to price almost two more hikes by the end of 2023, with the cash rate expected to reach 4.58% by the end of the year.

Foreign Exchange: The US dollar declined against a basket of major currencies, in line with a fall in US bond yields. The USD Index fell from a high of 102.56 to a low of 101.95. It was trading near this low, at 101.96 at the time of writing.

The AUD/USD pair fell on the day despite a weaker US dollar. The pair slipped from a high of 0.6696 during the Asian session to a low of 0.6624 during the crossover of the London and New York sessions. It recovered ground during the rest of the New York session, closing at 0.6676.

Commodities: Oil slipped on the day, gold steadied, iron ore and copper rose, while thermal and coking coal both declined.

Australia: There were no data releases yesterday.

China: In stark contrast to most developed economies, inflation continues to be very low in China. Indeed, the consumer price index (CPI) was flat over the year to June, bordering on outright deflation. This followed a weak reading of 0.2% over the year to May. The outcome was lower than consensus expectations, which centred on 0.2%. The CPI has grown by less than 1% on an annual basis over the past four months. This was the weakest outcome since February 2021.

Producer prices also continued to go backwards at a rate of knots. The producer price index (PPI) fell 5.4% over the year to June. This was lower than the 5.0% drop expected by consensus and followed a 4.6% decline over the year to May. The annual fall was the weakest outcome since December 2015.

Weak inflation, concerns around deflation, and softer-than-expected economic data have added to calls and expectations for additional policy support and economic stimulus from authorities.

Eurozone: Investor confidence declined further in July, falling to -22.5 in the month. This followed an outcome of -17.0 in June and was below expectations of -17.9. Investor confidence has remained entrenched in negative territory since February 2022. Looking at the sub-indices, views on the current situation (-20.5) and expectations (-24.5) both declined in July from their June levels.

Japan: The current account surplus came in at ¥1.9 trillion in May. This was broadly unchanged from the April reading and was broadly in line with consensus expectations. The outcome reflected a gain in exports, which was offset by an increase in imports.

United States: Consumer credit expanded at its slowest pace since November 2020. Credit expanded by \$7.2 billion in May, down from the \$20.3 billion pace in April. The outcome was well below expectations of \$20.0 billion. Consumer credit growth has been trending downwards since peaking at \$41.0 billion in March 2022 as the Federal Reserve aggressively hikes rates to get on top of inflationary pressures.

Four Fed members spoke overnight. Barr, Daly, and Mester all spoke of the need for further hikes this year due to inflation remaining elevated. Indeed, Daly suggested that “a couple more” hikes would be needed. Bostic was more dovish and was of the view that the Fed can be “patient” as rates were “clearly in the restrictive territory” and that signs were evident that hikes to date were working and slowing the economy.

Today's key data and events:

AU WBC-MI Cons. Conf. Jul prev 79.2 (10:30am)

AU NAB Business Survey Jun (11:30am)

Confidence prev -4

Conditions prev 8

UK ILO Unemployment Rate May exp 3.8% prev 3.8% (4pm)

EZ Ger. CPI Jun Final exp 0.3% prev 0.3% (4pm)

EZ EU ZEW Expectations Jul prev -10 (7pm)

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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