

# Morning Report

Monday, 18 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,279	1.3%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,618	-0.8%	10 yr bond		4.16	0.05		90 day BBSW	4.13	0.00
Japan Nikkei	33,533	1.1%	3 yr bond		3.84	0.03		2 year bond	3.86	0.00
China Shanghai	3,269	-0.3%	3 mth bill rate		4.26	0.01		3 year bond	3.83	0.00
German DAX	15,894	0.6%	SPI 200		7,250.0	-41		3 year swap	4.08	-0.02
UK FTSE100	7,711	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.10	-0.01
Commodities (close & change)*			TWI		60.4	-	-	60.4	<b>United States</b>	
CRB Index	289.6	-0.7	AUD/USD	0.6440	0.6474	0.6425	0.6432	3-month T Bill	5.30	-0.01
Gold	1,923.91	13.1	AUD/JPY	94.95	95.55	94.81	95.04	2 year bond	5.03	0.02
Copper	8,352.00	-23.8	AUD/GBP	0.5190	0.5209	0.5185	0.5192	10 year bond	4.33	0.05
Oil (WTI futures)	90.77	0.6	AUD/NZD	1.0894	1.0923	1.0889	1.0899	<b>Other (10 year yields)</b>		
Coal (thermal)	166.15	1.2	AUD/EUR	0.6051	0.6078	0.6027	0.6030	Germany	2.68	0.08
Coal (coking)	300.00	7.5	AUD/CNH	4.6929	4.7070	4.6764	4.6795	Japan	0.72	0.00
Iron Ore	121.00	-2.0	USD Index	105.39	105.41	105.08	105.33	UK	4.36	0.08

Data as at 9:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** US share markets ended lower, US bond yields moved higher, volatility in markets stayed low and economic data was mixed. Markets will be eyeing the US Federal Reserve decision this week. Markets are attaching a very low chance of a hike from the Fed.

**Share Markets:** US share market indexes finished lower on Friday with the Dow losing 0.8%, the S&P losing 1.2% and the Nasdaq down 1.6%.

The VIX Index, a financial benchmark for expected volatility of the S&P 500, reached its lowest level in more than three years. Volatility appears too low given the uncertainty surrounding the outlook.

**Interest Rates:** US bond yields rose across the curve and the curve steepened. The US 2-year yield rose 2 basis points and the 10-year lifted 5 basis points. The Fed meets this week and the market sees little chance of a rate hike.

**Foreign Exchange:** The AUD/USD remains stuck in narrow trading ranges, however, in the past few trading sessions it has moved into a modestly higher range. On Friday, it pushed up to 0.6474 in the wake of the Chinese economic data, but is currently trading back around 0.6425.

**Commodities:** The International Energy Agency warned on Friday that the world is struggling to keep up with demand for diesel. They added there's also been pressure on refiners to make other

products like jet fuel and gasoline, where demand has rebounded hard,

**Australia:** There was no major economic data on Friday.

**China:** Retail sales and industrial production grew faster than expected in August, official data showed on Friday. The data release also highlighted challenges in the property sector, where new home prices in big cities edged lower after a period of heightened investor concern over spillover effects from developer defaults.

Industrial production rose 4.5% year on year in August, while retail sales grew 4.6% over the same period. Both measures exceeded consensus forecasts, as well as growth rates in July of 3.7% and 2.5%, respectively.

Other aspects of Friday's data release underscored the challenge for China to reach its 5% annual growth target.

Fixed-asset investment softened to a 3.2% rise in the first eight months of the year, compared with a 3.4% rise to the end of July, while new home prices in 70 major cities fell 0.3% month on month. Property investment is down 8.8% over the January-August period.

Policymakers have unveiled a series of stimulus measures in recent weeks to boost growth and prop up the property market and currency. The People's

Bank of China on Thursday cut the reserve requirement ratio for banks by 0.25 percentage points to 7.4%, in effect adding liquidity into the financial system.

The central bank said on Friday it was keeping interest rates on its one-year medium-term lending facility unchanged at 2.5%. Last month, the People's Bank of China issued an unexpected cut to the rate, which affects loans to financial institutions, by 0.15 percentage points as part of wider easing measures.

On Friday, Sino-Ocean, another Chinese developer, suspended repayments on its offshore borrowings "in response to mounting liquidity pressures" including "a rapid decline in contracted sales".

**United States:** Industrial production kept expanding in August, beating consensus expectations even though the pace of the increase slowed due to sluggish manufacturing growth. Overall industrial production rose by 0.4%, up from a downwardly revised 0.7% growth rate a month earlier (previously reported as +1.0%). The August reading for manufacturing was up just 0.1%, held back by a large decline in motor vehicles and parts. Year-on-year, total industrial production expanded by 0.2%.

The University of Michigan's preliminary measure for consumer sentiment fell to 67.7 in September, from 69.5 in the final reading for August. Expectations lifted modestly whilst the current conditions component fell further. In terms of inflation expectations, the 1-year ahead inflation expectations measure fell to 3.1% (prior 3.5%) and the 5-10-year ahead gauge fell to 2.7% (prior 3.1%).

The NY Fed (Empire) manufacturing survey index rose to +1.9 in September, up from -19.0 in August. New orders pushed the improvement in the index.

**Today's key data and events:**

UK Rightmove House Prices Sep prev -1.9% (9:01am)

UK Current Account Balance Jul prev £35.8bn (6pm)

UK CPI Final Jul exp 0.6% prev 0.6% (7pm)

US NY Fed Services Sep prev 0.6% (10:30pm)

US NAHB Housing Mkt Index Sep exp 49 prev 50 (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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