Morning Report

Thursday, 21 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,163	-0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,441	-0.2%	10 yr bond	4.29		0.06		90 day BBSW	4.14	0.01
Japan Nikkei	33,024	-0.7%	3 yr bond	4.05		0.12		2 year bond	4.06	0.09
China Shanghai	3,259	-0.5%	3 mth bill rate	4.35		0.06		3 year bond	4.04	0.10
German DAX	15,782	0.7%	SPI 200	7,151.0		-20		3 year swap	4.25	0.09
UK FTSE100	7,732	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.27	0.06
Commodities (close & change)*			TWI	60.5	-	-	60.5	**United States**		
CRB Index	288.5	-1.5	AUD/USD	0.6455	0.6511	0.6440	0.6449	3-month T Bill	5.30	-0.02
Gold	1,930.30	-1.1	AUD/JPY	95.39	96.07	95.31	95.57	2 year bond	5.18	0.09
Copper	8,320.50	49.3	AUD/GBP	0.5209	0.5248	0.5205	0.5223	10 year bond	4.41	0.05
Oil (WTI futures)	89.31	-0.3	AUD/NZD	1.0872	1.0892	1.0855	1.0869	**Other (10 year yields)**		
Coal (thermal)	167.90	-3.1	AUD/EUR	0.6045	0.6068	0.6037	0.6047	Germany	2.70	-0.04
Coal (coking)	300.00	0.0	AUD/CNH	4.7149	4.7465	4.7073	4.7123	Japan	0.73	0.01
Iron Ore	121.30	-0.5	USD Index	105.13	105.44	104.67	105.35	UK	4.22	-0.13

Data as at 9:45am 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 Federal Reserve left interest rates on hold as widely expected. The Federal Open Market Committee (FOMC) continued to signal that they expect one additional rate hike by the end of 2023. However, expectations for future rate cuts were pared in response to more resilient then expected economic growth. The signal that rates will remain elevated for longer prompted a selloff in US treasuries, with the both 2-and-10-year treasury yields hitting their highest levels since around the GFC. Equities retreated, while the US dollar firmed.

Share Markets: Equity markets were softer alongside an uptick in treasury yields. The S&P 500 finished the day down 0.9%, while the Dow Jones and the NASDAQ closed down 0.2% and 1.5%, respectively.

The ASX 200 slipped 0.5% yesterday, weighed down by energy and materials stocks. This was the third straight day of losses on the ASX.

Interest Rates: US treasury yields rose across the curve. The 2-year yield jumped 9 basis points to 5.18%, it's highest level since July 2006. The 10-year yield rose 5 basis points to 4.41%, it's highest level since November 2007.

The rise in nominal yields was accompanied by a lift in real yields (i.e. inflation adjusted). The 10-year real yield rose to 2.05%, its highest level since February 2009.

Foreign Exchange: The US dollar strengthened on the back of higher real interest rates. The DXY index traded from a low 104.67 to a high of 105.44 and is currently trading at 105.35.

The Aussie dollar rose to a near 3-week high of 0.6511 but unwound gains on the back of the Fed meeting. The AUD/USD pair finished slightly lower than where it opened at 0.6449.

Commodities: The West Texas Intermediate (WTI) price of oil fell back below US$90 per barrel, ending it's recent string of sharp gains.

Australia: The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, rose slightly to -0.50% in August from -0.56% in July. However, the index conditions to indicate below trend growth in the economy over the next three to nine months.

New Zealand: The current account deficit narrowed marginally to $4.2bn in the June quarter, from $4.7bn in the March quarter. A doubling in tourism exports over the past 12-months helped underpin the result.

United Kingdom: A material downside surprise to inflation in August introduces the risk that the Bank of England (BoE) will not proceed with a much-anticipated rate hike at its policy meeting tonight. However, strong underlying wage pressures and still-elevated inflation provide plenty of cause to proceed with a hike. Should the BoE hike, the softer-than-expected inflation result could see a stronger signal from policymakers that they think this month's move will be the last in the cycle.

The consumer price index (CPI) rose 0.3% in August, well below expectations for a 0.7% gain. In annual terms, inflation slowed to 6.7%, from 6.8% in July, falling short of the BoE's own forecasts for a 7.1% annual increase.

The easing in price pressures was broad-based across both goods and services categories, contributing to a slowing in core inflation to 6.2% in annual terms, down from 6.9% in July. This was comfortably below expectations for a 6.8% jump.

United States: As widely anticipated, the FOMC left the federal funds rate target unchanged at 5.25% to 5.50% at it's September meeting. All eyes were instead on Chairman Jerome Powell's press conference and the Summary of Economic Projections (SEP), better known as the 'dot plots', which provide updated economic forecasts from FOMC members.

The median expectation among FOMC members is for one additional rate hike before the end of 2023, unchanged from previous projections. However, members upgraded their expectations for how long rates will remain elevated, with the median forecast for the fed funds rate rising in 2024 and 2025. Economic growth expectations were also upgraded across the full forecast horizon, while forecasts for the unemployment rate were revised lower. The committee's inflation forecasts saw only minor revisions, which indicate expectations for more near-term progress but some longer-term stickiness.

During his press conference Jerome Powell continued to signal that the FOMC remains in a data-dependant mode as it awaits additional evidence to conclude that rates are sufficiently restrictive to bring inflation down to target over a reasonable timeframe. Powell remarked that the surprising resilience in economic activity likely underpinned most of the changes to the committee's median forecasts and meant that interest rates would need to remain restrictive for longer in order to contain inflationary pressures.

Today's key data and events:

NZ GDP Q2 exp 0.4% prev -0.1% (8:45am)

EZ Cons. Confidence Sep Prel. exp -16.5 prev -16.0 (12am)

UK Public Sect. Borrowing Aug exp £9.8bn prev £3.5bn (4pm)

UK BoE Policy Decision (9pm)

Bank Rate exp 5.50% prev 5.25%

US Philad. Fed Index Sep exp -1.0 prev 12.0 (10:30pm)

US Existing Home Sales Aug exp 0.7% prev -2.2% (12am)

US Leading Index Aug exp -0.5% prev -0.4% (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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