Morning Report

bankSA

Friday, 30 June 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,195	0.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,122	0.8%	10 yr bond	3.97		0.08		90 day BBSW	4.29	-0.01
Japan Nikkei	33,234	0.1%	3 yr bond	3.96		0.09		2 year bond	4.10	0.06
China Shanghai	3,336	-0.2%	3 mth bill rate	4.58		0.04		3 year bond	3.93	0.06
German DAX	15,947	0.0%	SPI 200	7,166.0		12		3 year swap	4.29	-0.01
UK FTSE100	7,472	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.90	0.03
Commodities (close & change)*			TWI	61.6	-	-	61.6	**United States**		
CRB Index	259.1	-0.1	AUD/USD	0.6602	0.6641	0.6596	0.6616	3-month T Bill	5.17	-0.01
Gold	1,908.20	0.9	AUD/JPY	95.33	96.01	95.17	95.76	2 year bond	4.86	0.15
Copper	8,260.50	-111.5	AUD/GBP	0.5224	0.5260	0.5220	0.5246	10 year bond	3.84	0.13
Oil (WTI futures)	69.86	0.3	AUD/NZD	1.0865	1.0924	1.0853	1.0902	**Other (10 year yields)**		
Coal (thermal)	161.90	2.8	AUD/EUR	0.6048	0.6098	0.6045	0.6089	Germany	2.42	0.10
Coal (coking)	230.50	0.0	AUD/CNH	4.7826	4.8175	4.7790	4.8073	Japan	0.39	0.00
Iron Ore	113.40	0.6	USD Index	102.94	103.44	102.78	103.35	UK	4.38	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: Stronger than expected US economic data led to a sharp increase in US Treasury yields. This also saw the US dollar advance in overnight trade. The resilience in the data is consistent with Fed Chair Powell's view that rates will have to go higher and stay there for longer if inflation is to fall back to the Fed's target.

US equities also ended higher as investors adjusted their quarter end positions and responded positively to the stronger than expected economic data. Financial stocks led the increase.

Share Markets: US equities ended higher in a volatile trading session. The S&P 500 ended 0.5% higher, the Dow Jones closed 0.8% higher, while the Nasdaq was flat.

The ASX 200 ended the day unchanged yesterday, with 4 of the 11 sectors finishing in the red. The resilience shown in the data released yesterday increased the odds of further rate hikes which weighed on interest sensitive stocks.

Interest Rates: US Treasury yields increased across the yield curve. The 2-year treasury yield increased by 15 basis points to 4.86% - the highest level since March. The 10-year yield increased by 13 basis points to 3.84% - the highest level since May.

Interest rate markets are pricing a 85% chance of a 25-basis point hike from the Fed in late July. Markets are now pricing one more hike with a chance of another before the end of the year.

Consistent with the movements in the US, the Australian 3-year bond (futures) yield increased by 9 basis points to 3.96%. The 10-year (futures) yield increased by 8 basis points to 3.97%.

Interest rate markets are pricing a 34% chance of a 25-basis point hike when the Reserve Bank meets in July. This increased significantly from yesterday on the back of the resilience shown in the data released yesterday, particularly around spending and the labour market. Markets are pricing a peak rate of around 4.5% by December 2023.

Foreign Exchange: The US dollar strengthened against a basket of major currencies. The resilience in the economic data and higher yields support the dollar. The USD Index ranged between a low of 102.78 and a high of 103.44, before closing at 103.35.

The AUD/USD outperformed, reversing some of the fall recorded over the past few days. The pair traded between a low of 0.6596 and a high of 0.6641, before settling at 0.6616.

Commodities: Commodities were generally higher, with gold, oil, coal and iron ore all finishing higher.

Australia: Retail spending rose 0.7% in May, rebounding from a flat reading in April. This was the strongest monthly print since January 2023 and takes the level of spending just 0.9% shy of the record high from October last year.

Households took advantage of greater than usual discounting activity in May as end of financial year sales were brought forward. The jump in spending activity is therefore likely to be more of a 'one-off' response to discounting rather than a sustained increase in trend spending.

But ultimately, households still had the cash to burn, and this will likely grab the attention of the Reserve Bank (RBA). It's the level of nominal spending that matters for inflation and we are yet to see the pull-back that we might expect given the pressures on some household budgets.

Record population growth has propped up retail spending. But even when adjusting for growth in the working age population, spending per capita gained 0.5% in May, to be up 1.5% over the year. Households might like it, but they are still coughing up to pay the higher prices.

Spending on cafes, restaurants and on takeaway continued to outperform (1.4%) and after a blip in April, spending in the category jumped to a fresh record high. Spending on other retailing (2.2%) was the strongest category - supported by spending at online-only retailers, florists, and pharmaceutical and cosmetics retailers.

The outlook for retail spending remains soft. As the impact of the RBA's tightening cycle continues to transmit through the economy spending will continue to slow. However, today's result suggests that there could still be some resilience in the consumer.

Household wealth strengthened for a second consecutive quarter, increasing by 2.1% in the March quarter – this was the strongest quarterly rise since the December quarter 2021. This outcome was driven by a 1.4% increase in the value of dwellings, which follows a flat outcome in December.

Notwithstanding the most aggressive hiking cycle since the start of the inflation targeting era, household wealth is only 0.8% lower than the peak recorded a year ago. The imbalance in the housing market, along with strong population growth, is seeing the value of dwellings increase, even though interest rates are still on the rise. Indeed, from the peak in March 2022, the value of household dwellings has fallen by only 2.2%.

The increase in household wealth means that the wealth channel of monetary policy may have become more muted, when compared with previous cycles. This is consistent with our view that the RBA will need to hike to at least 4.6% to ensure inflation falls back to target.

The number of job vacancies fell by around 2.0% between February and May, the fourth consecutive quarterly decrease. While job vacancies have fallen by around 10% over the past year, they remain elevated – around 90% higher than in February 2020.

The percentage of businesses reporting at least one vacancy increased to 25% in May, up from the 24% recorded in February. These outcomes continue to point to an incredibly tight labour market.

New Zealand: The ANZ Business Outlook Index improved to -18.0 in June, from -31.1 in May. The index has been deeply entrenched in negative territory over the past two years. The monthly improvement was driven by own activity outlook, profit expectations, and investment intentions. At the same time, short run inflation expectations eased to 5.29% in June from 5.47% in May.

Eurozone: The consumer confidence indicator was confirmed at -16.1 in June, an improvement from the -17.4 recorded in May. The improvement was driven a less negative outlook in the financial situation for households over the next 12 months, economic expectations over the next 12 months, and consumers' willingness to make major purchases.

The economic sentiment indicator declined for a second consecutive month to 95.3 in June, from 96.5 in May. The rapid increase in interest rates, coupled with persistently high inflation rates, contributed to a further deterioration in sentiment in the manufacturing, construction, consumer services, and retail industries. Among the largest economies, the indicator deteriorated in Germany, Italy, the Netherlands, and Spain, while it improved in France.

Germany's consumer price index (CPI) accelerated to grow by 6.4% over the year to June, up from the 6.1% recorded in May. This was slightly above the 6.3% the market was expecting. The core inflation rate, which excludes volatile items like food and energy, also saw an acceleration to grow by 5.8% over the year to June, up from the 5.4% recorded in May. Both inflation measures remained above the European Central Bank's target of 2.0%.

United States: Economic activity expanded by an annualised rate of 2.0% over the March quarter 2023. This third official estimate of activity was well above the second estimate of 1.3% annualised growth and the 1.4% expected by the market. The upward revision was driven by stronger personal consumption growth which grew by an annualised rate of 4.2%, the strongest in nearly two years and much higher than the second estimate of 3.8% and stronger exports. The core personal consumption expenditure (PCE) deflator was broadly unchanged – growing by an annualised rate of 4.9% over the March quarter, in line with the second estimate of 5.0%.

Initial jobless claims declined to be 239k over the week, down from the 265k claims from the previous week and the 265k expected by the market.

Pending home sales declined by 2.7% over May. The US National Association of Realtors noted that the housing market is resilient with approximately three offers for each listing, and that the lack of housing inventory continues to prevent housing demand from being fully realised.

Raphael Bostic, President of the Federal Reserve Bank of Atlanta, reiterated that he favours keeping borrowing costs on hold but noted that Fed Chair Powell and other Fed colleagues don't agree: "I don't see as much urgency to move as others, including my chair."

Today's key data and events:

AU Private Sector Credit May prev 0.6% (11:30am)

CH Manufacturing PMI Jun prev 48.8 (11:30am)

CH Non-Mfg PMI Jun prev 54.5 (11:30am)

CH Current Account Q1 Final prev US$82.0bn (TBC)

EZ Unemployment Rate May (7pm)

EZ CPI Jun y/y Prel. (7pm)

JN Job to Applicant Ratio May prev 1.32 (9:30am)

JN Industrial Production May Prel. (9:50am)

NZ ANZ Consumer Confidence Jun prev 79.2 (8am)

UK GDP Q1 Final prev 0.1% (4pm)

US Personal Income May prev 0.4% (10:30pm)

US Personal Spending May prev 0.8% (10:30pm)

US PCE Core May prev 0.4% (10:30pm)

US MNI Chicago PMI Jun prev 40.4 (11:45pm)

US UoM Consumer Sentiment Jun Final (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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