Morning Report

bankSA

Thursday, 31 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,298	1.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,890	0.1%	10 yr bond	4.03		-0.03		90 day BBSW	4.13	-0.01
Japan Nikkei	32,333	0.3%	3 yr bond	3.73		-0.05		2 year bond	3.84	-0.04
China Shanghai	3,289	0.0%	3 mth bill rate	4.16		0.01		3 year bond	3.78	-0.04
German DAX	15,892	-0.2%	SPI 200	7,263.0		4		3 year swap	4.01	0.00
UK FTSE100	7,474	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.07	-0.03
Commodities (close & change)*			TWI	60.3	-	-	60.3	**United States**		
CRB Index	281.1	1.4	AUD/USD	0.6480	0.6522	0.6450	0.6476	3-month T Bill	5.30	0.00
Gold	1,942.32	4.8	AUD/JPY	94.55	95.06	94.17	94.65	2 year bond	4.89	-0.01
Copper	8,438.50	89.3	AUD/GBP	0.5124	0.5134	0.5089	0.5091	10 year bond	4.11	-0.01
Oil (WTI futures)	81.63	0.5	AUD/NZD	1.0854	1.0887	1.0838	1.0878	**Other (10 year yields)**		
Coal (thermal)	158.00	-3.7	AUD/EUR	0.5956	0.5967	0.5924	0.5928	Germany	2.55	0.04
Coal (coking)	256.83	0.1	AUD/CNH	4.7194	4.7536	4.7015	4.7264	Japan	0.65	0.00
Iron Ore	114.50	0.1	USD Index	103.53	103.70	102.94	103.16	UK	4.42	0.00

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: There was a risk on tone overnight with weaker than expected economic data increasing the odds that the US Fed is nearing the end of its rate-hiking cycle. US equities rallied, while the US dollar and bond yields declined.

Share Markets: Equities finished higher for the fourth consecutive day following more signs that the higher rates are weighing on the economy, reducing the need for further hikes. The S&P 500 gained 0.4%, led by tech stocks. The NASDAQ rose 0.5%, while the Dow Jones finished 0.1% higher.

Locally, the ASX 200 rose for the third consecutive day, finishing 1.2% higher. Materials stocks led the market higher, with 9 of 11 sectors closing in the green. Futures are pointing to a positive open this morning.

Interest Rates: US bond yields were lower across the curve. Bond yields fell sharply following the release of the US jobs and activity data, only to retrace some of the fall in late trade. The US 2-year bond yield and the US 10-year bond yield each fell by 1 basis point at close. This follows sharp falls the previous day.

Markets are currently pricing around a 50% chance of another hike from the Fed and are fully pricing two rate cuts by July next year.

Looking at domestic yields, the 3-year government bond yield (futures) declined by 5 basis points, to 3.73%. The 10-year government bond yield (futures) declined by 3 basis points, to 4.03%.

Following yesterday's weaker than expected monthly inflation read, markets have pared back the likelihood of a further hike by the Reserve Bank this cycle, reducing the odds to 30%, down from 40% before the release of the inflation data. Cuts are yet to be fully priced in by October next year.

Foreign Exchange: The Aussie dollar was broadly unchanged after breaking through 0.6500 overnight, as the US dollar fell. The AUD/USD pair bounced off a low of 0.6450 following the release of the domestic inflation read. Following the weaker than expected US economic data, the pair broke through key resistance at around 0.6500 to reach a two-week high at 0.6522. The pair then pulled back, erasing all gains after failing to hold above 0.6500. It is trading near 0.6476 at the time of writing. Domestic investment and credit data will likely drive price action today.

The US dollar was softer overnight as traders pared the probability of additional Fed rate hikes. The DXY fell from a high of 103.76 to a low of 102.94 and is currently trading at 103.16.

Commodities: Commodity prices were broadly firmer. Oil, gold, copper, and iron ore all rose. The West Texas Intermediate (WTI) future closed at US$81.63 per barrel.

Australia: The monthly consumer price index indicator continues to moderate, growing by 4.9% over the year to July, down from the 5.4% recorded in June – this was the lowest annual growth rate since January 2022.

When adjusting for volatile items and holiday travel, the indicator shows a 5.8% increase in annual terms, down from the 6.1% recorded in June – this was the lowest annual growth rate since June 2022.

Disinflation in the headline number was driven by goods, particularly fruit and vegetables, fuel, and household items, with international holiday travel also contributing. This was more than enough to offset the 6.0% monthly increase in electricity which would have been 19.2% without government rebates.

The July inflation indicator was an important read. Business surveys suggests cost pressures increased sharply over the month, primarily driven by the Fair Work Commission 2023-24 wage decision. There was a risk that the higher costs would be passed on to consumers. Today's outcome suggests, at least in the industries with updated price data such as households goods retailing, higher costs were not fully passed on to consumers. This is consistent with businesses having a more difficult time passing on costs as demand in the economy slows.

Construction activity rose a modest 0.4% over the June quarter. However, the strength of the result was masked by a large upward revision to activity in the March quarter. In level terms, construction activity was at its highest level since the June quarter of 2018.

Engineering (infrastructure) and non-residential (commercial/office/industrial) construction underpinned the pickup in construction activity. Non-residential construction rose to its highest on record while public sector engineering construction also reached a record high.

Residential housing construction is yet to hit its stride. Disruptions in the residential construction sector are the likely catalyst. Residential builders continue to face supply issues and are struggling to compete for labour with large public infrastructure projects draining a large share of the talent.

Building approvals continued to trend downwards in a volatile fashion in July, a trend well entrenched since early 2021. Governments at all levels have taken notice of the prolonged downswing in new approvals and are pulling some levers to try and lift approvals.

However, the challenge for housing supply lies with disruptions in the sector and subdued construction activity. Until this is addressed, we are unlikely to see the supply response necessary to ease the housing market imbalance.

New Zealand: Building approvals declined by 5.2% over July, reversing the 3.4% increase over June. On an annual basis, approvals were 25% lower, showing that the residential constrcutin sector continues to be impacted by higher interest rates.

Eurozone: The consumer confidence indicator declined to -16 index points in August, down from -15.1 points in July. The survey showed consumers have become more pessimistic about their future financial situation and expected general economic conditions.

The economic sentiment indicator declined to 93.3 index points in August, from 94.5 points in July. This was the lowest since November 2020. Declines were recorded across all the industries including manufacturing, services, retail, and construction. The gauge for selling price among manufacturers ticked up to 3.6% in August from 3.4% in July.

Germany's consumer price index increased by 6.1% over the year to August, slightly down from the 6.2% recorded in July. Core inflation, which excludes volatile items like food and energy, was unchanged at 5.5% in August. On a monthly basis, consumer prices advanced by 0.3% in August, the same pace as in July - this was in line with market expectations.

United States: Businesses in the private sector added 177k new jobs in August, following the 371k increase in July. The outcome was lower than the 195k new jobs the market was expecting and was the smallest number of new jobs in five months. The services sector added the bulk of the jobs (154k), led by education and health, followed by trade and transportation.

Wages growth is also moderating. Workers who stayed in their job saw a 5.9% median pay increase in August, the smallest advance since 2021. For those who changed jobs, the median rise in annual pay was 9.5% in August, down from the 10.3% recorded in July.

Gross domestic product (GDP) increased at an annualised rate of 2.1% over the June quarter. This was down from the previous estimate of 2.4%, mainly reflecting a downward revision to business investment. The annualised growth rate over the March quarter was confirmed at 2.0%. While the outcome points to resilience, there was no acceleration in activity as the preliminary outcome suggested. The Personal Consumption Expenditure Price Index (both headline and core) were also revised slightly lower.

US pending home sales ticked up 0.9% over the month of July, marking the second consecutive month of increase. However, in annual terms pending sales decreased by 14.0% in July, showing the extent of the downturn that has materialised given the higher rates.

Today's key data and events:

AU Private Sector Credit Jul prev 0.2% (11:30am)

AU Private CAPEX Q2 exp 1.3% prev 2.4% (11:30am)

CH Mfg PMI Aug prev 49.3 (11:30am)

CH Non-Mfg PMI Aug prev 51.5 (11:30am)

EZ CPI Aug y/y Prel y/y (7pm)

EZ Unemployment Rate Jul (7pm)

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

NZ ANZ Business Confidence Aug (11am)

US Personal Income Jul prev 0.3% (10:30pm)

US Personal Spending Jul prev 0.5% (10:30pm)

US PCE Core Jul prev 0.2% (10:30pm)

US Chicago PMI Aug (11:45pm)

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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