Morning Report

Monday, 3 July 2023

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,203	0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,408	0.8%	10 yr bond	4.01		-0.01		90 day BBSW	4.35	0.06
Japan Nikkei	33,189	-0.1%	3 yr bond	4.01		0.02		2 year bond	4.22	0.11
China Shanghai	3,357	0.6%	3 mth bill rate	4.56		-0.02		3 year bond	4.05	0.12
German DAX	16,148	1.3%	SPI 200	7,190.0		29		3 year swap	4.30	-0.01
UK FTSE100	7,532	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.02	0.12
Commodities (close & change)*			TWI	61.5	-	-	61.5	**United States**		
CRB Index	262.0	2.9	AUD/USD	0.6616	0.6672	0.6604	0.6662	3-month T Bill	5.13	-0.05
Gold	1,919.35	11.1	AUD/JPY	95.76	96.30	95.60	96.12	2 year bond	4.90	0.04
Copper	8,323.75	141.8	AUD/GBP	0.5246	0.5258	0.5232	0.5246	10 year bond	3.84	0.00
Oil (WTI futures)	70.64	0.8	AUD/NZD	1.0902	1.0916	1.0845	1.0858	**Other (10 year yields)**		
Coal (thermal)	159.25	2.9	AUD/EUR	0.6089	0.6113	0.6075	0.6106	Germany	2.39	-0.02
Coal (coking)	230.67	-1.1	AUD/CNH	4.8081	4.8465	4.7982	4.8431	Japan	0.40	0.01
Iron Ore	110.80	-0.1	USD Index	103.33	103.54	102.75	102.92	UK	4.39	0.01

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Risk sentiment improved on Friday as US inflation data broadly met expectations and showed signs of slowing. US equities rallied, led by tech stocks, taking the S&P 500 to a 14-month high. Treasuries were mixed, deepening the yield curve inversion, while the US dollar was slightly softer.

Share Markets: US equities finished in the green on Friday alongside a renewed rally in tech mega-caps. The S&P 500 rose 1.2% to close at its highest level since April 2022. The Dow Jones and the NASDAQ gained 0.8% and 1.5%, respectively. The S&P 500 finished the first half of 2023 up 15.9%, while the tech-heavy NASDAQ was up a massive 31.7% over the year-to-date. Many analysts remain cautious of the resilience in equity valuations which will likely be put to the test as the global economy continues to slow.

The ASX 200 was up 0.1% on Friday. Futures are pointing to some solid momentum at the open this morning on the back of gains in the US.

Interest Rates: The yield curve inversion deepened in the US alongside higher yields at the short end of the curve. The 2-year treasury yield was up 4 basis points to 4.90% - its highest close since the collapse of Silicon Valley Bank in early March. The 10-year yield was unchanged at 3.84%.

Swap traders are pricing in one more 25-basis point hike from the Fed, most likely in July. There is some risk attached to a further hike, the implied odds are currently sitting around 30%.

Aussie bond futures were mixed. The 3-year (futures) yield rose 2 basis points to 4.01%, while the 10-year (futures) yield eased 1 basis point to 4.01%.

Interest rate markets are betting on a pause from the Reserve Bank (RBA) tomorrow. Interbank cash rate futures imply a near 72% chance of a pause tomorrow. However, traders still see a total of two more hikes from the RBA in this cycle with a terminal cash rate of 4.55% priced in by December.

Foreign Exchange: The Aussie dollar firmed on Friday on the back of a slightly softer US dollar. The AUD/USD pair traded from a low of 0.6604 to a high of 0.6672 before re-tracing slightly to close at 0.6664.

The US dollar was slightly weaker against its G10 peers. The DXY index eased from a high of 103.54 to a low of 102.75 before settling around 102.92.

Commodities: Commodities were broadly firmer. The West Texas Intermediate (WTI) future rose to US$70.64 per barrel – its first close about US$70 per barrel in seven sessions. Iron ore and coking coal bucked the trend, ending the day lower.

Australia: CoreLogic dwelling prices data showed that prices rose for a fourth consecutive month in June, increasing 1.2% across the combined capital cities. Prices were firmer in every capital city except for Hobart with gains concentrated in Sydney (1.7%)

and Brisbane (1.3%).

Private sector credit growth slowed in May, returning to its average monthly pace over the past eight months. Credit expanded 0.4%, down from 0.6% in April. Since October, monthly credit has expanded by 0.4% in each month, except March (0.2%) and April (0.6%).

In annual terms, credit grew 6.2%, down from 6.7% in April. Annual growth continues to slow as stronger growth rates from the start of 2022 fall out of the calculation. This will likely continue.

Business credit growth decelerated in the month. After spiking to 1.0% in April, growth slowed to 0.5% in May. Going forward, business credit growth is likely to weaken in line with slowing consumer demand and economic growth. However, growth may receive some support from still elevated capacity utilisation. Additionally, credit growth could be robust in June as businesses bring-forward spending to the make the most of expiring tax incentives.

Annual business credit growth fell below 10% for the first time since March 2022, at 9.7%.

Housing credit continued to expand at a steady but subdued pace, in line with a stabilisation in the housing market. Credit grew 0.3% in May and has grown by this rate for five of the past six months. Owner-occupier credit expanded 0.4%, while investor housing credit was 0.2% higher.

In annual terms, housing credit growth continues to slow. Credit to owner-occupiers slowed to 5.6% in May, from a peak of 9.3% in this cycle. Investor credit is also down in annual terms, from a peak of 6.6% to 3.8% in May.

China: The services and manufacturing purchasing managers' indices (PMI) printed broadly as expected in June. The services PMI eased from 54.5 to 53.2, adding to evidence that the reopening boom is waning. The manufacturing PMI came in at 49.0, improving slightly from 48.8 in May. The reading continues to indicate a contraction in manufacturing activity and marks the third consecutive reading below the threshold of 50.

The current account surplus was finalised at US$81.5bn in the March quarter, only marginally lower than the preliminary reading of US$82.0bn.

Eurozone: The consumer price index CPI) rose 0.3% in June according to preliminary figures. In annual terms, inflation increased 5.5% moderating from 6.1% in May. Both monthly and annual readings were broadly in line with expectations. Core CPI rose 5.4% in annual terms accelerating from 5.3% in May. The outcome undercut expectations but is still indicative of sticky underlying inflation pressures.

The unemployment rate was unchanged in May at 6.5% - the equal lowest on record.

New Zealand: Consumer confidence rose to 85.5 in June, from 79.2 in May. This was the strongest reading since January 2022. However, consumers remain deeply pessimistic. The reading of 85.5 is around the recessionary lows reached in the depths of the pandemic and during the GFC.

United Kingdom: March quarter GDP growth was finalised at 0.1%, unchanged from the preliminary readings. Annual growth was also unchanged at 0.2%. Upwards revisions to business investment and government spending were broadly offset by weaker net exports.

United States: Pending home sales fell 2.7% in May following a revised 0.4% fall in April. This was the third consecutive monthly fall in sales as high borrowing costs and low supply weigh on sales.

Personal income rose 0.4% in May, beating expectations for a 0.3% gain. The increase followed a revised 0.3% gain in May.

Strong income growth is supporting consumer spending in the face of higher prices and rising interest rates. Despite this, household spending is slowing noticeably. Personal spending edged up 0.1% in May, falling short of consensus expectations, and decelerating from a 0.6% gain in April. When adjusting for higher prices, personal spending stalled, while the strong 0.5% gain recorded in April was revised down heavily to 0.2%.

The personal consumption expenditure deflator (PCE), the Fed's preferred measure of inflation, rose 0.1% in May taking annual PCE inflation to 3.8%. This is down from 4.3% in April and off a peak of 7.0% in June last year. The core measure, which strips out food and energy prices, remained firmer than the headline reading. Core PCE increased 0.3% in the month to be 4.6% higher in annual terms. This was slightly better than expected by consensus which centred on an unchanged reading of 4.7%.

The MNI Chicago manufacturing PMI firmed to 41.5 in June but remained well below the expansionary threshold of 50.0 – where it has settled since July.

The University of Michigan consumer sentiment index was revised up slightly at final figures. Consumer sentiment came in at 64.4 in June, the strongest reading since February. Importantly, the survey measures suggest that consumer inflation expectations remained well anchored. Consumers anticipate inflation will be at 3.3% over the next 12 months and 3.0% over the next 5-10 years.

Today's key data and events:

AU CoreLogic House Prices Jun exp 1.4% prev 1.4% (12:01am)

AU MI Inflation Jun y/y prev 5.9% (11am)

AU Housing Finance May (11:30am)

Investor exp 4.0% prev -0.9%

Owner-occupier exp 4.0% prev -3.8%

Total exp 4.0% prev -2.9%

AU Bldg. Appr. May exp 3.0% prev -8.1% (11:30am)

AU ANZ Job Ads Jun prev 0.1% (11:30am)

CH Caixin Mfg PMI Jun exp 50.0 prev 50.9 (11:45am)

EZ Markit Mfg PMI Jun Final exp 43.6 prev 43.6 (6pm)

JN Tankan Lrg. Mfg Index Q2 exp 3 prev 1 (9:50am)

NZ Building Permits May prev -2.6% (8:45am)

UK Markit Mfg PMI Jun Final exp 46.5 prev 46.2 (6:30pm)

US Markit Mfg PMI Jun Final prev 46.3 (11:45pm)

US Construction Spending May exp 0.4% prev 1.2% (12am)

US ISM Mfg PMI Jun exp 47.1 prev 46.9 (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.

Jameson Coombs, Economist
Ph: +61 401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789