Morning Report

Wednesday, 10 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,264	-0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,562	-0.2%	10 yr bond	3.47		0.02		90 day BBSW	3.88	0.00
Japan Nikkei	29,243	1.0%	3 yr bond	3.10		0.02		2 year bond	3.22	0.04
China Shanghai	3,520	-1.1%	3 mth bill rate	3.88		0.00		3 year bond	3.10	0.03
German DAX	15,955	0.0%	SPI 200	7,235.0		-21		3 year swap	3.50	0.00
UK FTSE100	7,764	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.45	0.05
Commodities (close & change)*			TWI	61.1	-	-	61.1	**United States**		
CRB Index	264.1	0.1	AUD/USD	0.6781	0.6787	0.6747	0.6760	3-month T Bill	5.05	-0.04
Gold	2,034.55	0.0	AUD/JPY	91.59	91.74	91.10	91.41	2 year bond	4.02	0.02
Copper	8,571.25	4.5	AUD/GBP	0.5373	0.5379	0.5349	0.5357	10 year bond	3.52	0.01
Oil (WTI futures)	73.71	0.6	AUD/NZD	1.0688	1.0709	1.0669	1.0674	**Other (10 year yields)**		
Coal (thermal)	167.65	-0.8	AUD/EUR	0.6162	0.6174	0.6151	0.6167	Germany	2.35	0.03
Coal (coking)	249.33	4.7	AUD/CNH	4.6924	4.7001	4.6722	4.6823	Japan	0.43	0.01
Iron Ore	103.55	1.5	USD Index	101.44	101.84	101.36	101.64	UK	3.86	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: Investor sentiment remains muted ahead of key US inflation data tonight and as the US debt ceiling impasse looms. US equities closed lower after wavering for much of the session. Treasury yields and the US dollar edged higher.

Share Markets: US equities finished in the red. The S&P 500 fell 0.5%, while the Dow Jones and the NASDAQ dropped 0.2% and 0.6%, respectively.

The ASX 200 fell 0.2% yesterday, weighed down by healthcare and material stocks. Futures point to a weak open this morning.

Interest Rates: US treasury yields edged higher. The 2-year yield gained 2 basis points to 4.02%, while the 10-year yield rose 1 basis points to 3.52%.

Interest rate markets are pricing just a 20% probability of another rate hike from the Fed this cycle and are almost fully pricing four rate cuts by January 2024.

The debt ceiling is contributing to disruption at the very short end of the treasury market. The Federal Treasury announced cuts to the size of auctions on four- and eight-week notes and announced plans for new cash management bills to help manage borrowing.

The Australian 3-year and 10-year bond futures both rose 2 basis points overnight to 3.10% and 3.88%, respectively.

Interest rate markets see a 14% chance the Reserve Bank (RBA) hikes rates again between now and August but expects the next move will most likely be a rate cut. A full 25-basis point rate cut is not priced until 2024.

Foreign Exchange: The Aussie dollar held a narrow range overnight and remains firmly within its range since late-February. The AUD/USD traded between a high of 0.6787 and a low of 0.6747 before finishing the session at 0.6760, around 20 pips below where it opened.

The Aussie hit a near 5-week high against the euro. The AUD/EUR cross reached a high of 0.6174, before dipping to an intra-day low of 0.6151. The pair has since regained some ground and is trading at around 0.6167 at the time of writing.

The US dollar index edged higher. The DXY traded from a low of 101.36 to a high of 101.84 before retracing to close at 101.64.

Commodities: Commodity prices were broadly firmer. Oil, copper and iron ore gained, while gold was flat.

Australia: The 2023-24 Federal Budget was handed down last night.

The Budget is expected to end 2022-23 in surplus – the first surplus in 15 years. The improvement was driven by a stronger economy and higher commodity prices. Net spending is offsetting the automatic stabilisers. Net spending increased by $20.6b. In addition, the aged care package will cost $13.4b.

The Budget surplus is temporary. The Budget returns to a deficit of $13.9b in 2023-24, although over the medium term the Budget is expected to be broadly in balance (2033-34). It relies on delicate assumptions to achieve this balance in the medium term.

Budget forecasts show the economy is expected to slow sharply, leading to an increase in the unemployment rate over the next two years. Dwelling investment is expected to fall over three consecutive years, putting further pressure on an already tight housing market. Inflation is expected to return to the Reserve Bank's 2-3% target band by 2024-25 where its forecast to be 2.75%.

The cost-of-living package ($14.6b) is significant and the centrepiece of this Budget. It will benefit a large share of households and small businesses.

The housing package disappoints. Build-to-rent incentives and providing National Housing Finance and Investment Corporation (NHFIC) with more capital could increase capital flow to the sector. However, housing headwinds remain with Treasury forecasting dwelling investment to decline over the next three years.

Measures announced for businesses include the $20k instant asset write off scheme and the small business energy incentive scheme. There is also enhanced support for SMEs and start-ups, alignment of payroll cycles with superannuation cycles and an expansion of the general anti-avoidance rule.

The volume of retail spending fell 0.6% in the March quarter. This followed a 0.3% fall in the December quarter and was the first consecutive quarterly decline since 2011. Over the past six months, the volume of spending was down 0.9% from the record September quarter of 2022.

Elevated inflation and cash rate hikes have been key drivers behind softer volumes. Retail prices rose 0.6% in the quarter. This was lower than the broader consumer price index (1.4%) as price pressures across goods begin to slow.

By category, household goods (-3.7%) experienced the largest fall in the quarter. This was followed by other retailing (-0.8%). Clothing & footwear (+0.2%), cafes & restaurants (+1.0%), and department stores (+1.5%) gained in the quarter, while food was flat (0.0%).

Retailing has been supported by the rapid surge in population growth, as migration hits record levels and international tourism recovers. This contributed to gains across cafes & restaurants, which was the only category to hit a new record high in volume terms in the quarter.

Real retailing per capita was down 1.3% in the quarter and -2.0% over the year. This was the third negative quarter in a row and was the largest quarterly fall in over 13 years (ex. COVID).

Retail spending accounts for around a third of household consumption. The latest outcome points to weakness in the March quarter. A key question remains how real spending has held up across other categories for which we have more limited partial data, particularly services.

New Zealand: Retail card spending advanced 0.7% in April, matching March's gain. In annual terms, retail spending was 7.7% higher, down from 14.3% over the year to March.

United States: New York Fed boss, John Williams, said that he is closely monitoring credit conditions but was open minded about a pause in rate hikes next month. Williams added that "I don't see in my baseline forecast any reason to cut interest rates this year" pushing back against market pricing.

The NFIB small business optimism index softened to 89.0 in April from 90.1 in March. This was below consensus expectations for a reading of 89.7 and was the weakest reading in over a decade.

Today's key data and events:

EZ Ger. CPI Apr Final exp 0.4% prev 0.4% (4pm)

US CPI Apr (10:30pm)

m/m exp 0.4% prev 0.1%

y/y exp 5.0% prev 5.0%

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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