

Morning Report

Friday, 11 August 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,357	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	35,176	0.2%	10 yr bond	4.08			0.04	90 day BBSW	4.17	-0.01
Japan Nikkei	32,474	0.8%	3 yr bond	3.80			0.03	2 year bond	3.83	0.05
China Shanghai	3,412	0.3%	3 mth bill rate	4.23			0.01	3 year bond	3.77	0.04
German DAX	15,997	0.9%	SPI 200	7,282.0			-19	3 year swap	4.04	0.03
UK FTSE100	7,619	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.05	0.05
Commodities (close & change)*			TWI	60.7	-	-	60.7	United States		
CRB Index	280.0	-2.1	AUD/USD	0.6531	0.6616	0.6516	0.6517	3-month T Bill	5.27	-0.01
Gold	1,913.01	-1.5	AUD/JPY	93.84	94.94	93.80	94.35	2 year bond	4.85	0.04
Copper	8,352.24	-19.3	AUD/GBP	0.5135	0.5162	0.5133	0.5142	10 year bond	4.10	0.10
Oil (WTI futures)	82.88	-1.5	AUD/NZD	1.0789	1.0828	1.0776	1.0818	Other (10 year yields)		
Coal (thermal)	149.00	0.8	AUD/EUR	0.5950	0.5982	0.5935	0.5936	Germany	2.53	0.03
Coal (coking)	248.67	0.7	AUD/CNH	4.7204	4.7687	4.7164	4.7200	Japan	0.58	0.00
Iron Ore	101.40	0.7	USD Index	102.48	102.65	101.78	102.64	UK	4.36	0.00

Data as at 6:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The July inflation report in the US came in largely as expected overnight prompting cautious optimism in markets. The results support another rate pause from the Fed in September, but investors remain alert to the risk of more tightening and that rates will likely be higher for longer. US stocks wavered, ending the day broadly flat, while treasury yields rose across the curve despite the sanguine inflation reading. The dollar firmed slightly on the back of higher yields.

Share Markets: US equities closed little changed after retracing early gains. Optimism that the Fed is done hiking was not enough to spur a rally as investors expect policy will remain tight for some time to prevent a flare up in inflation. The S&P 500 was flat, while the Dow Jones and the NASDAQ finished up 0.2% and 0.1%, respectively.

The ASX 200 advanced 0.3% yesterday, boosted by energy and mining stocks.

Interest Rates: Weak demand for a US\$23bn 30-year bond tender weighed on sentiment in interest rate markets. The yield on the bond was awarded the highest rate since 2011 at 4.19%.

The yield curve steepened as longer-dated yields outpaced the shorter-end. The 2-year yield rose 4 basis points to 4.85%, while the 10-year yield rose 10 basis points to 4.10%.

Interest rate markets are pricing just a 35% chance of another hike from the Fed in this cycle and are

pricing in around 70 basis point of cuts by July next year.

Aussie bond futures took the lead from the US. The 3-year (futures) yield rose 3 basis points to 3.80%, while the 10-year (futures) yield was up 4 basis points to 4.08%.

Markets are pricing around a 50% chance of another hike from the Reserve Bank (RBA) at some stage this cycle.

Foreign Exchange: The Aussie dollar found its feet early, rising to a high of 0.6616 by the end of London trade. The jump in treasury yields later knocked the AUD/USD off its perch, the pair retracing all of its gains to strike a fresh intra-day low of 0.6516. The pair was trading at 0.6517 at the time of writing.

The US dollar index initially slipped to a low of 101.78, before yield support helped the Greenback edge higher to an intra-day peak of 102.65, near where it is currently trading.

The stronger Dollar saw the Yen slip to a one-month low. The USD/JPY traded between a low of 143.3 to a one-month high of 144.82.

The New Zealand dollar also fell to a two-month low of 0.6020.

Commodities: Commodity prices were mixed. Key energy commodities such as oil and natural gas softened, retracing some of the gains in recent

sessions. The West Texas Intermediate (WTI) price of oil closed at US\$82.88 per barrel. Gold, copper and nickel softened, while iron ore firmed.

Australia: The Melbourne Institute's consumer inflation expectations index moderated to 4.9% in August following a reading of 5.2% in July. This was the first fall in the index in four months and is a sign that inflation expectations remain well anchored. This is positive for the Reserve Bank (RBA), although inflation expectations remain a key risk to the interest rate outlook.

United States: The consumer price index (CPI) rose 0.2% in July, unchanged from June and in line with expectations. Annual growth stepped up to 3.2% from 3.0%, a little softer than expectations that centred on a pick-up to 3.3%. In six-month annualised terms, which is a better measure of the current pulse of inflation, growth slowed to 2.6% from 3.3% in June.

The all-important core measure, which excludes food and energy items, also met expectations. Core CPI rose 0.2% in the month, also unchanged from June's rise. In annual terms, core inflation slowed to 4.7% from 4.8% in June. This was the lowest reading since October 2021. In six-month annualised terms, core inflation slowed to 4.1%, from 4.6% in June.

Overall, the inflation report provided further evidence of strong progress on disinflation and some signs that the stickiness of core inflation may be eroding. This will be welcomed news for the Fed and will likely support a further pause in rate hikes. However, it is too early to declare victory as the last stretch of the disinflation cycle is the most difficult. We expect the Fed will stress this in its forward guidance, which will likely retain a tightening bias if prompted by the data.

San Francisco Fed President, Mary Daly, said "there's still more work to do" to get inflation back to target despite labelling the inflation report as "good news". Daly is not a voting member this year and declined to say what move she would favour.

Today's key data and events:

NZ BusinessNZ Mfg PMI Jul prev 47.5 (8:30am)

UK GDP Q2 Prel. exp 0.0% prev 0.1% (4pm)

US PPI Final Jul y/y exp 0.2% prev 0.1% (10:30pm)

US UoM Consumer Sentiment Aug Prel. exp 71.3 prev 71.6 (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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