Morning Report

Wednesday, 12 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,109	1.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,261	0.9%	10 yr bond	4.17		-0.01		90 day BBSW	4.30	-0.01
Japan Nikkei	32,204	0.0%	3 yr bond	4.10		-0.01		2 year bond	4.19	0.00
China Shanghai	3,377	0.6%	3 mth bill rate	4.50		0.03		3 year bond	4.12	0.00
German DAX	15,790	0.7%	SPI 200	7,096.0		35		3 year swap	4.42	0.02
UK FTSE100	7,283	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.18	0.00
Commodities (close & change)*			TWI	61.7	-	-	61.7	**United States**		
CRB Index	267.6	3.2	AUD/USD	0.6675	0.6695	0.6651	0.6686	3-month T Bill	5.21	-0.02
Gold	1,932.23	6.9	AUD/JPY	94.35	94.62	93.47	93.84	2 year bond	4.87	0.02
Copper	8,312.50	-52.0	AUD/GBP	0.5191	0.5200	0.5157	0.5171	10 year bond	3.97	-0.02
Oil (WTI futures)	74.75	-0.1	AUD/NZD	1.0748	1.0798	1.0745	1.0793	**Other (10 year yields)**		
Coal (thermal)	135.85	-5.1	AUD/EUR	0.6069	0.6080	0.6053	0.6075	Germany	2.65	0.01
Coal (coking)	226.33	0.0	AUD/CNH	4.8262	4.8358	4.8005	4.8226	Japan	0.46	0.00
Iron Ore	106.00	0.2	USD Index	101.93	101.97	101.66	101.66	UK	4.66	0.02

Data as at 8:50am 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 ahead of key US inflation data tonight. US equities gained, while the US dollar was softer.

Share Markets: US equities extended gains for a second consecutive session. The S&P 500 rose 0.7%, while the Dow Jones and the NASDAQ jumped 0.9% and 0.6%, respectively.

The ASX 200 leapt 1.5% yesterday, led by materials and healthcare. The jump snapped a four-day losing streak. Futures are pointing to a positive open this morning.

Interest Rates: US treasury yields were mixed ahead of key inflation data tonight. The 2-year yield gained 2 basis points to 4.87%, while the 10-year yield eased 2 basis points to 3.97%.

Interest rate markets are pricing a 92% chance of a hike from the Fed later this month and are pricing in around a 40% chance of another hike thereafter.

Both the Australian 3-year and 10-year (futures) yields eased 1 basis point overnight to 4.10% and 4.17%, respectively.

Interest rate markets are pricing in a 41% chance of a hike from the Reserve Bank (RBA) in August.

Foreign Exchange: The US dollar softened against a basket of major currencies. The DXY index traded from a high of 101.97 to a low of 101.66 and is currently trading around that level.

The Aussie dollar struck a narrow range between a low of 0.6651 and a high of 0.6695, finishing the session slightly higher at 0.6686.

Commodities: Gold and iron ore firmed, while copper and oil softened. The West Texas Intermediate (WTI) price of oil closed at US$74.45, its highest close in over two months.

Australia: Business conditions remained unchanged at +9 index points in June, after recording declines over the past four consecutive months. This was the equal softest read since January 2022 and suggests that solid conditions enjoyed over the past 18 months are coming to an end.

Trading conditions continued to ease for a fifth consecutive month. Profitability and employment edged higher, only partially retracing the sharp falls recorded in May. Forward looking indicators, particular forward orders, continue to point to soft conditions ahead.

The slow unwind in capacity utilisation continued, a trend that started in January. Notwithstanding this decline, utilisation remains elevated (83.5%) and above average levels. This shows that while conditions are easing, there is still some strength in the economy.

Business confidence increased to a flat reading of 0 index points. Confidence has been volatile recently, highlighting the elevated uncertainty facing many businesses.

Growth in labour costs and retail prices reaccelerated in June. The RBA has flagged that it will monitor the potential for elevated labour costs to translate into persistent inflation. Growth in the cost of other inputs was unchanged.

Consumers remain deeply pessimistic about the economic outlook as headwinds from inflation and interest rates persist. The consumer sentiment index rose 2.7% in July to a meagre 81.3 – treading water in its recent downbeat range.

The bounce in confidence coincided with the softer than anticipated monthly inflation reading for May - which revealed a welcome slowing in headline inflation to 5.6% - and the RBA's decision to pause rate hikes in July.

Progress on inflation appears the more likely catalyst for the lift in sentiment in May. Consumers seem to have interpreted this month's RBA pause as temporary, with most respondents expecting more rates hikes on the horizon.

Sentiment towards the housing market continued to improve, defying the headwinds imposed by higher rates. The time to buy a dwelling index rose to its highest level since January and the house price expectations index rose has increased by 45% since February.

The ongoing stabilisation in housing sentiment has contributed to recent growth in dwelling prices. However, the depth of demand is yet to be tested and still fragile housing sentiment means risks are skewed to the downside.

We are unlikely to see a meaningful boost in confidence until the headwinds facing consumers ease. A combination of weaker inflation and optimism of near-term rate relief are necessary to see confidence make a sustained break north. Unfortunately, these conditions are unlikely to materialise for some time.

Eurozone: The ZEW Indicator of Economic Sentiment declined to -12.2 index points in July, down from -10 in June. It was the lowest reading since December last year. The outcome was driven by the deteriorating economic outlook due to rising interest rates. The indicator of the current economic situation fell by 2.5 to -44.4 and inflation expectations rose by 5.5 points to -79.1

United Kingdom: The unemployment rate in the increased to 4% over the quarter to May. This is the highest level since the last quarter of 2021 and higher than the 3.8% the market was expecting. Wages, excluding bonuses, grew by a significant 7.3% compared to a year ago. This was the largest recorded increase outside the COVID-19 pandemic. This wages outcome points to persistent inflation going forward and would be of concern to the Bank of England.

Today's key data and events:

NZ Net Migration May prev 5.8k (8:45am)

JN Machinery Orders May exp 1.0% prev 5.5% (9:50am)

NZ RBNZ Policy Decision (12pm)

Official Cash Rate exp 5.50% prev 5.50%

AU RBA's Gov. Lowe Speech (1:10pm)

US CPI Jun (10:30pm)

m/m exp 0.3% prev 0.1%

y/y exp 3.1% prev 4.0%

US Federal Reserve Beige Book (4am)

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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