

Morning Report

Monday, 16 January 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,328	0.7%			Last	Overnight Chg		Australia		
US Dow Jones	34,303	0.3%	10 yr bond	3.61		0.00	90 day BBSW	3.31	-0.01	
Japan Nikkei	26,120	-1.2%	3 yr bond	3.25		0.01	2 year bond	3.16	0.00	
China Shanghai	3,349	1.0%	3 mth bill rate	3.55		0.03	3 year bond	3.22	0.00	
German DAX	15,087	0.2%	SPI 200	7,310.0		35	3 year swap	3.66	0.03	
UK FTSE100	7,844	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.59	0.00
Commodities (close & change)*			TWI	61.7	-	-	61.7	United States		
CRB Index	275.9	2.1	AUD/USD	0.6969	0.6994	0.6916	0.6977	3-month T Bill	4.46	-0.01
Gold	1,920.23	23.1	AUD/JPY	90.04	90.15	88.66	89.19	2 year bond	4.23	0.09
Copper	9,170.00	-0.5	AUD/GBP	0.5705	0.5723	0.5685	0.5716	10 year bond	3.50	0.06
Oil (WTI futures)	79.86	1.5	AUD/NZD	1.0896	1.0955	1.0893	1.0935	Other (10 year yields)		
Coal (thermal)	334.00	-8.9	AUD/EUR	0.6422	0.6450	0.6408	0.6440	Germany	2.17	0.01
Coal (coking)	308.50	4.2	AUD/CNH	4.6886	4.7006	4.6576	4.6801	Japan	0.51	0.00
Iron Ore	121.50	-4.0	USD Index	102.23	102.65	101.99	102.18	UK	3.37	0.03

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: Equities continued their solid start to the year on the back of growing optimism that the US economy could achieve softer landing. Stronger than expected US consumer sentiment data released on Friday provided further support for this optimism. The US dollar was broadly unchanged, while yields ended higher.

Share Markets: US equities ended Friday's session higher after making back the sharp losses recorded in early trade. Investors responded to a stronger than expected US consumer sentiment read and growing hopes that the US Fed is nearing the end of its hiking cycle. The S&P 500 closed 0.4% to be 2.7% higher over the week. The Nasdaq and Dow Jones finished the session 0.7% and 0.3% higher, respectively.

The ASX 200 closed 0.7% higher on Friday to reach 7,328, a five-week high. The weaker than expected US inflation read released in the early hours of Friday provided another indicator that global inflation may have peaked. Gains were widespread with 9 of 11 sectors advancing led by energy and financials. The ASX 200 has risen by 4.1% over the past 2 weeks.

Interest Rates: The US 2-year treasury yield ranged between 4.11% and 4.24% before closing 9 basis point higher at 4.23%. The US 10-year yield ranged between 3.42% to 3.51% and ended the trading session 6 basis points higher at 3.50%.

Interest rate markets are expecting the US Fed to hike by a further 25 basis points at its next meeting in early February. The US Fed Funds rate is expected to peak at 4.92% in June 2023.

The Australian 3-year government bond (futures) yield rose by 1 basis points to 3.25%, while the 10-year (futures) yield jumped 3 basis points to 3.55%.

Interest rate markets are attaching around a 67% probability to a 25-basis point rate hike in February. The cash rate is expected to peak around 3.7% in September this year.

Foreign Exchange: The AUD/USD pair is trading around 0.6977, its highest level since late August 2022. Robust commodity prices, China's reopening, and improved risk sentiment are all providing a tailwind for the Aussie. The pair traded from a low of 0.6916 to a high of 0.6994.

The US dollar index ended broadly unchanged. The DXY index fell to a low of 101.99, before lifting to an intra-day high of 102.65. The US dollar is currently sitting around 102.18.

Commodities: Commodities were broadly stronger. The West Texas Intermediate (WTI) futures contract closed higher at USD79.86. Gold and coking coal were higher. While thermal coal, iron ore and copper softened, but remained elevated.

Australia: The value of new housing finance commitments declined by 3.7% in November, to be 24.3% lower than a year ago. The fall was larger

than the 1.5% decline expected by the market. The outcome was driven by declines in both new owner occupier (down 3.8% over the month of November) and investor (down 3.6%) commitments. The value of owner-occupier refinancing between lenders rose 9.1% over the month to a new record high of \$13.4bn. This shows that consumers are shopping around to find the best deals given the sharp increase in the cash rate since May 2022.

Eurozone: Industrial production grew by 2.0% in annual terms to November 2022. This was better than the 0.8% the market was expecting. The outcome was driven by increases in the production of intermediate and capital goods. This reading points to continued resilience in the face of elevated energy prices.

The trade deficit narrowed to EUR15.2bn in November, from the EUR28.1bn recorded in October. The outcome was better than the EUR21.1bn trade deficit expected by the market and was driven by a 3.8% decline in imports. This outcome is consistent with the ease, albeit still elevated, in energy prices and slowing domestic demand.

United States: The University of Michigan consumer sentiment index rose to 64.6 in January, from the 59.7 recorded in December. This was the strongest read since April 2022 and was better than the 60.7 expected by the market. Year-ahead inflation expectations eased for the fourth straight month, falling to 4.0% from the 4.4% expected in December.

U.S. import prices increased 0.4% in December, after declining 0.7% in November. This was the first monthly increase since June 2022 and follows a 4.6% decline recorded over June to November. Higher import prices for nonfuel (most notably industrial supplies and materials) and fuel imports contributed to the outcome. In a further sign of easing global supply chain constraints, the cost of inbound air freight finished the 2022 calendar year 27.8% lower, while outbound air freight ended the year 34.6% lower.

**There are no significant data releases today.
Tomorrow's key data and events:**

AU WBC-MI Consumer Sentiment Jan prev 80.3
(10:30am)

CH GDP Q4 y/y prev 3.9% (4:00pm)

EZ CPI Dec final (6:00pm)

EZ ZEW Expectations Jan prev -23.6 (9:00pm)

UK ILO Unemployment Rate Nov prev 3.7%
(6:00pm)

US NY Empire Manufacturing Jan (12:30am)

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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