

Morning Report

Wednesday, 31 May 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,209	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,043	-0.2%	10 yr bond		3.63	-0.06		90 day BBSW	3.96	0.00
Japan Nikkei	31,328	0.3%	3 yr bond		3.37	-0.06		2 year bond	3.59	0.00
China Shanghai	3,380	0.1%	3 mth bill rate		4.00	0.00		3 year bond	3.43	0.00
German DAX	15,909	-0.3%	SPI 200		7,187.0	-34		3 year swap	3.75	0.03
UK FTSE100	7,522	-1.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.68	-0.02
Commodities (close & change)*			TWI		60.2	-	-	60.2	United States	
CRB Index	255.5	-5.2	AUD/USD	0.6538	0.6559	0.6503	0.6518	3-month T Bill	5.12	-0.01
Gold	1,959.33	16.1	AUD/JPY	91.80	91.95	90.89	91.11	2 year bond	4.45	-0.11
Copper	8,111.95	-12.6	AUD/GBP	0.5291	0.5299	0.5243	0.5250	10 year bond	3.69	-0.11
Oil (WTI futures)	69.58	0.1	AUD/NZD	1.0800	1.0825	1.0772	1.0783	Other (10 year yields)		
Coal (thermal)	135.10	-5.6	AUD/EUR	0.6106	0.6115	0.6068	0.6072	Germany	2.34	-0.09
Coal (coking)	230.83	0.8	AUD/CNH	4.6322	4.6457	4.6128	4.6213	Japan	0.44	-0.01
Iron Ore	96.20	-2.2	USD Index	104.30	104.53	103.88	104.06	UK	4.25	-0.09

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: US and UK markets resumed trading after public holidays on Monday. Currencies were volatile, share markets mixed and US bond yields fell in anticipation of the US debt ceiling being lifted. A vote takes place on the debt ceiling tonight.

Share Markets: Share markets ended on a mixed note after rallying early in the session. The Dow fell 0.2%, the S&P 500 was unchanged and the Nasdaq gained 0.3%.

Interest Rates: US government bond yields fell across the curve as optimism continued over a possible bipartisan bill to lift the US debt ceiling. The US 2-year and 10-year government bond yield fell 11 basis points.

Foreign Exchange: The AUD traded in a very volatile fashion within a band of 0.6503 to 0.6559 overnight. Risks of the AUD/USD falling towards 0.6420 seem more muted with the AUD/USD making higher lows (7-month low of 0.6491 on May 26, followed by 0.6497 on May 27 and 0.6503 overnight).

Commodities: Oil futures and gold advanced.

Australia: New residential dwelling approvals declined by 8.1% in April. Approvals are now 50% lower than the cyclical peak in March 2021 and are at their lowest levels in over a decade (April 2012).

The weakness is widespread. Approvals for private medium and high density dwellings declined by 16.5% over April, are 60% lower than the peak and

are at their lowest level since January 2012. Approvals for private detached houses declined by 3.8% to be almost 20% lower than a year ago. Approvals across all states are significantly below the levels recorded a year ago.

The forward indicators for housing supply are deteriorating quickly. On top of this, given the ongoing challenges facing the construction sector, more approved projects are being delayed or are in jeopardy; completions fell over the December quarter by almost 2%.

While completions are coming down and likely to decline further, we have seen net overseas arrivals continue to power ahead. In fact, approvals for each additional working age person have reached a record low – suggesting that the imbalance will get worse before it gets better.

It will take time for this imbalance to be resolved. During the mining investment boom, we had a record surge in population which saw migration reach the then record high of around 300k in 2008-09. Back then, the Reserve Bank (RBA) was cutting rates in response to the GFC, and it still took more than three years for significant new supply to come online. The RBA still has a tightening bias, which suggests that the supply response will be more delayed this time around.

Eurozone: The various measures of confidence published overnight fell in the latest month - May.

Economic confidence dropped 2.5 points to 96.5, industrial confidence fell 4.4 points to minus 5.2 and services confidence dropped 2.9 points to 7.0.

United States: Consumer confidence fell from 103.7 in April to 102.3 in May according to the Conference Board measure. Both the expectations and present situation fell.

The Dallas Fed manufacturing activity index fell to minus 29.1 in May, from minus 23.4 in April.

There were three housing price measures released overnight; these measures each beat consensus expectations. The FHFA housing price index rose 0.6% in March. CoreLogic's 20-city housing price gauge lifted 0.45% in March and the house price purchase index for Q1 lifted 0.5%.

Federal Reserve member Barkin said rates are in restrictive territory, but there is uncertainty about the path. He reiterated that inflation needs to come down by reducing demand and is seeing some evidence of this in parts of the economy, but some sectors remain vibrant.

The US House Rules Committee meets soon to decide whether the debt limit bill will get a full vote. Two far-right Republicans on the panel oppose it, and a GOP backbencher called for Kevin McCarthy's removal. House passage tonight is critical to getting approval in the Senate.

Today's key data and events:

JN Industrial Production Apr exp 1.4% prev 1.1% (9:50am)
NZ Business Confidence May prev -43.8 (11am)
AU Const'n Work Done Q1 exp 0.5% prev -0.4% (11:30am)
AU Priv. Sector Credit Apr exp 0.3% prev 0.3% (11:30am)
AU Monthly CPI Apr exp 6.4% prev 6.3% (11:30am)
CH Composite PMI May prev 54.4 (11:30am)
CH Manufacturing PMI May exp 49.5 prev 49.2 (11:30am)
CH Non Mfg PMI May exp 49.5 prev 49.5 (11:30am)
US Chicago PMI May exp 47.2 prev 48.6 (11:45pm)
US JOLTS Job Openings Apr exp 9400k prev 9590k (12am)
US Dallas Fed Mfg Index May prev -14.4 (12:30am)
US 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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