

Morning Report

Friday, 19 May 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,237	0.5%			Last	Overnight Chg		Australia		
US Dow Jones	33,536	0.3%	10 yr bond	3.57		0.08	90 day BBSW	3.92	0.00	
Japan Nikkei	30,574	1.6%	3 yr bond	3.27		0.07	2 year bond	3.40	0.09	
China Shanghai	3,456	0.4%	3 mth bill rate	4.00		0.04	3 year bond	3.21	0.08	
German DAX	16,163	1.3%	SPI 200	7,276.0		17	3 year swap	3.69	-0.01	
UK FTSE100	7,742	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.49	0.06
Commodities (close & change)*			TWI	60.6	-	-	60.6	United States		
CRB Index	261.7	-0.6	AUD/USD	0.6662	0.6668	0.6605	0.6622	3-month T Bill	5.09	0.00
Gold	1,957.55	-24.3	AUD/JPY	91.65	91.93	91.10	91.83	2 year bond	4.25	0.10
Copper	8,156.50	-135.5	AUD/GBP	0.5334	0.5345	0.5313	0.5338	10 year bond	3.65	0.08
Oil (WTI futures)	71.98	0.1	AUD/NZD	1.0665	1.0670	1.0608	1.0634	Other (10 year yields)		
Coal (thermal)	154.00	-11.0	AUD/EUR	0.6146	0.6152	0.6117	0.6149	Germany	2.45	0.11
Coal (coking)	235.00	-3.0	AUD/CNH	4.6691	4.6827	4.6535	4.6705	Japan	0.38	0.01
Iron Ore	104.15	-2.7	USD Index	102.90	103.62	102.80	103.54	UK	3.96	0.12

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: The Australian dollar fell towards the bottom of the trading range it has been in over these past two months against the US dollar. Yesterday's lift in the Australian dollar was a catalyst. Overnight, US equities have rallied on optimism about a possible US debt deal. US bond yields lifted ahead of US Chair Powell's panel discussion tonight.

Share Markets: US share markets gained on debt-deal optimism, with the Nasdaq 100 rallying 1.5% to a 9-month high. The S&P 500 rose 0.9% and also closed at a nine-month peak.

Interest Rates: US treasury yields rose on speculation that the Fed will keep rates higher for longer. The US 2-year yield gained 10 basis points and the 10-year yield rose 8 basis points at the close.

Australian bond yields were higher at the close yesterday. However, the probability cash-rate futures are attaching to a rate hike when the Reserve Bank next meets in June dropped after yesterday's rise in the unemployment rate. The probability remains low.

Foreign Exchange: The AUD/USD fell from near 0.6670 just before the employment data to an overnight low of 0.6605, as the rise in Australia's unemployment rate made it more likely the Reserve Bank may pause at its June board meeting. In early trade today, the AUD/USD is lifting off this

overnight low. The AUD/USD remains within the trading band of 0.6574 and 0.6818 it has been in for the past two months; we still see this as a consolidation phase.

Commodities: Oil eked a small gain, but metals fell. European natural gas slumped below the €30 mark for the first time since mid 2021.

Australia: The labour market has been in flux recently as the surge in labour supply from overseas arrivals has been soaked up by pent up demand for workers. However, this ability to soak up new supply appears to be waning, marking a significant turning point for the jobs market.

Employment declined by 4.3k in April. However, at turning points like this the underlying trend is more significant. Over the six months to April, employment growth averaged 25k per month, significantly slower than the same period last year where jobs growth averaged near 110k per month. In other words, momentum is softening as the labour demand cools.

While labour demand is losing momentum, labour supply is just hitting fifth gear. Surging overseas arrivals are driving strong growth in the working age population and the size of the labour force. In six-month annualised terms, these numbers are still accelerating.

As the number of people in the labour force

(+14.1k) rose by more than employment (-4.3k), the number of unemployed people lifted (+18.4k). This led to a rise in the jobless rate to 3.7%.

Ongoing strength in the number of hours worked suggests that demand for labour is being partially met by people working more hours. This is a potential sign that businesses are shying away from adding headcount given the economic backdrop and are increasing hours instead.

The labour market remains exceptionally tight. However, we are beginning to see signs that the turn in conditions is accelerating. As this dynamic evolves, we expect a further increase in the unemployment rate, though, this path may not necessarily be a straight line.

United States: Sales of previously owned US homes fell in April, restrained by limited inventory and high mortgage rates. Contract closings decreased 3.4% to a 4.28 million annualised pace, the slowest in three months. It is below consensus expectations that centred on a result of 4.30 million.

The Philadelphia Fed business activity index fell to minus 10.4 in May, from minus 31.3 in April. The result beat consensus expectations.

Dallas's Fed member Lorie Logan said expressed disappointment in the lack of progress on inflation. The voting member added she has an open mind ahead of the June meeting as new data trickles in.

Meanwhile, Governor Philip Jefferson said he's watching for any delayed effects from past hikes.

US House Speaker Kevin McCarthy said he expects the House to consider a debt ceiling deal next week. He said negotiations are in a "much better place" now, with the two sides discussing the scope of spending cuts and the borrowing increase. The Treasury's cash balance fell to \$68.3 billion, the lowest since 2021.

Today's key data and events:

NZ Trade Apr prev -\$1.27bn (8:45am)

JN CPI Apr y/y exp 3.5% prev 3.2% (9:30am)

EZ Eco Bulletin (6pm)

US Fed Williams Speech (10:45am)

US Fed Bowen Bankers' Conference Discussion (11pm)

US Fed Chair Powell Policy Panel (1am)

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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