Morning Report

Wednesday, 4 October 2023

Equities (close & % change)		
S&P/ASX 200	6,943	-1.3%
US Dow Jones	33,002	-1.3%
Japan Nikkei	31,238	-1.6%
China Shanghai	3,261	0.1%
German DAX	15,085	-1.1%
UK FTSE100	7,470	-0.5%
Commodities (close & change)*		
CRB Index	281.5	-1.0
Gold	1,823.47	-25.2
Copper	7,952.50	-50.5
Oil (WTI futures)	89.48	0.7
Coal (thermal)	153.40	-6.2
Coal (coking)	350.00	19.5
Iron Ore	115.40	-1.3

Sydney Futures Exchange (last & change)				
		Last		**Overnight Chg**
10 yr bond		4.66		0.10
3 yr bond		4.13		0.03
3 mth bill rate		4.28		0.00
SPI 200		6,929.0		-35
FX Last 24 hrs	Open	High	Low	Current
TWI	59.9	-	-	59.9
AUD/USD	0.6363	0.6369	0.6286	0.6302
AUD/JPY	95.36	95.44	93.07	93.84
AUD/GBP	0.5265	0.5267	0.5207	0.5217
AUD/NZD	1.0701	1.0723	1.0664	1.0668
AUD/EUR	0.6074	0.6078	0.6009	0.6021
AUD/CNH	4.6616	4.6645	4.6052	4.6127
USD Index	107.03	107.35	106.91	107.04

Interest rates (close & change)		
Australia		
90 day BBSW	4.16	0.02
2 year bond	4.10	0.02
3 year bond	4.09	0.01
3 year swap	4.29	-0.05
10 year bond	4.54	0.05
United States		
3-month T Bill	5.32	0.01
2 year bond	5.15	0.05
10 year bond	4.79	0.11
Other (10 year yields)		
Germany	2.97	0.05
Japan	0.77	-0.01
UK	4.60	0.03

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US stocks and bonds continued to freefall as stronger-than-expected job vacancy data supported rates remaining higher for longer. The 10-and-30-year treasury yields hit fresh highs since 2007, taking the US dollar to a near 12-month high against a basket of G-10 currencies. The Aussie dollar tumbled to its lowest level since November last year, while speculation is spreading that the Bank of Japan (BoJ) intervened in FX markets to defend the Yen, this is yet to be confirmed by officials. The US House of Representatives speaker, Kevin McCarthy, was ousted this morning following a revolt from fellow Republican members.

Share Markets: US equities tumbled on stronger-than-expected jobs data, extending the recent rout. The S&P 500 shed 1.4%, while the Dow Jones and the NASDAQ closed down 1.3% and 1.9%, respectively.

The ASX 200 dropped sharply yesterday, closing 1.3% lower. Futures are pointing to further weakness at the open this morning following the lead from the US.

Interest Rates: The broad selloff in US treasuries continued overnight, fuelled by strong job data supporting the case for rates to remain elevated.

Selling was again concentrated at the longer end of the yield curve, driving a bear steepening. The yield on the 30-year treasury jumped 14 basis points to 4.93%, its highest level since June 2007. The 10-year yield also scaled a fresh 16-year high of 4.81%, before closing 11 basis points higher at 4.79%. The 2-year yield was up a more modest 5 basis points to 5.15%.

Market pricing has the probability of another Fed rate hike at just above 50-50. This compares to a 40% chance at the end of last week. Pricing for rate cuts was pushed out from July to September next year.

Aussie bond futures followed the lead from US markets. The 3-year (futures) yield rose 3 basis points to 4.13%, while the 10-year (futures) yield spiked 10 basis points to 4.66%. The yield on the physical 10-year bond hit a 12-year high of 4.61% yesterday, price action in futures markets suggests this could be toppled this morning.

Interbank cash rate futures imply a 90% probability that the Reserve Bank (RBA) will hike by June 2024.

Foreign Exchange: The US dollar finished slightly firmer after a choppy session, which saw the DXY strike a fresh high since November 2022 at 107.35. The Dollar index has since pulled back to trade around 107.04 at the time of writing.

The Aussie dollar struggled against the stronger Greenback, slumping to its lowest level since November last year at 0.6286. Yesterday's RBA decision provided little support for the AUD/USD pair and a lack of domestic data this week leaves the pair vulnerable to a further sell off.

Rumours of FX intervention from the Bank of Japan (BoJ) are circulating after the USD/JPY hit a near 12-month high of 150.16 overnight. Within 6 minutes of striking its high, the pair fell 1.8% to an intra-day low of 147.43. The pair has since stabilised around 149.04. Japanese officials are yet to confirm whether any intervention took place.

The euro hit its lowest level against the US dollar since December at 1.0448, while the British Pound fell to a more than 6-month low of 1.2052 against the US dollar.

Commodities: Oil was little changed around US$89.48 per barrel after sliding 6.9% in just three sessions. Gold and silver continued to sell-off alongside the sharp pick-up in real yields.

Australia: Yesterday's RBA meeting marked the first for the new Governor Michele Bullock. She started off gently, leaving cash-rate settings unchanged at 4.10% and making no major changes to the accompanying statement. The RBA has now paused in five of its last seven meetings.

There were few changes to the accompanying policy statement and the changes that occurred were mostly factual. The statement noted the recent noticeable rise in fuel prices and inserted a sentence describing the Australian economy as stronger than expected over the first half of this year. Both these changes at the margin perhaps flag some upside risks to inflation.

The final paragraph in the statement retained the warning about the possibility of further tightening. This comes as no surprise; whilst inflation is moderating, it's elevated and not without upside risks.

Our central view is that 4.10% marks the peak and rate cuts will materialise in the second half of next year. Interest-rate markets are less convinced. Latest market pricing has the chance of a rate hike by March 2024 at around 85%.

Dwelling prices rose 0.8% in August, accelerating from a 0.7% increase over both July and August. Prices are now just 1.3% shy of their peak in April 2022 – ahead of the rate hike cycle.

The outcome is a familiar one. Despite headwinds to affordability, supply and demand fundamentals in the housing market remain out of kilter. An out-of-season rise in new listings has been evident since early June and so far, the market has easily soaked up the additional supply. A sustained rise in listings could represent the first test for the price rally.

When looking through the volatility of recent months, the value of new housing finance (excluding refinancing) has risen 8.6% since bottoming out in February. This is an impressive rate given that annual growth in housing lending has averaged 6.1% over the last decade.

This highlights that while limited supply has been the bedrock of dwelling price growth, it takes two to tango and demand is certainly contributing to the strength of price growth.

Volatility in building approvals continued in August, as approvals rose 7.0%. However, approvals appear to be stabilising on a trend basis. But this is at very low levels, with private sector house (-12%) and high-rise (-35%) approvals both well below their respective 10-year averages.

A meaningful supply response is needed to meet record population growth and address the existing undersupply. A raft of challenges have meant the response to date has not been significant. While approvals are showing signs of bottoming, this is at very low levels. Discouragingly, a meaningful supply response is likely still some time away.

Job ads edged down 0.1% in September, while the August's gain was revised down to 1.7% from 1.9%, previously. Job ads were 8.2% lower in annual terms reflecting strong employment gains and some easing in labour demand.

New Zealand: Dwelling prices fell 7.3% over the year to September, improving from an 8.7% annual decline in August. This was the smallest annual fall in house prices since January.

United States: The US House of Representatives speaker, Kevin McCarthy, was ousted this morning following a revolt from fellow Republican members. McCarthy becomes the first US House speaker to be removed from his job after a tumultuous 9-months in the role which included averting US debt default and an October 1 government shutdown. The narrow vote raises fresh questions about dysfunction in Washington after rating agency Moody's recently sounded a warning over 'governance' concerns.

Cleveland Fed President, Loretta Mester (non-voter), said she is open to raising interest rates again. When it comes to timing Mester said that "if the economy looks the way it did at the next meeting, similar to the way it looked at our recent meeting, I would do the further rate increase".

Atlanta Fed boss, Raphael Bostic (non-voter), has a different approach. Bostic noted that given the US economy is slowing and inflation is falling, there is no urgency for the Fed to raise rates again.

However, Bostic said it will likely be “a long time” before rate cuts are appropriate, supporting the higher for longer rhetoric.

There was a surprise spike in job vacancies in August contrasting the underlying slowing in the labour market. JOLTS job openings jumped to 9.6m in August beating expectations for 8.8m and July’s reading of 8.9m. The result highlights the durability of labour demand and may support ongoing labour market resilience.

Today’s key data and events:

NZ RBNZ Policy Decision (12pm)

Official Cash Rate exp 5.50% prev 5.50%

EZ Markit Serv. PMI Sep Final exp 48.4 prev 48.4 (7pm)

UK Markit Serv. PMI Sep Final exp 47.2 prev 47.2 (7:30pm)

EZ Retail Sales Aug exp -0.5% prev -0.2% (8pm)

EZ PPI Aug y/y exp 0.6% prev -7.6% (8pm)

US ADP Employ. Chg. Sep exp 150k prev 177k (11:15pm)

US Markit Serv. PMI Sep Final exp 50.2 prev 50.2 (12:45am)

US Factory Orders Aug exp 0.3% prev -2.1% (1am)

US Durable Goods Orders Aug Final exp 0.2% prev 0.2% (1am)

US ISM Non-Mfg Sep exp 53.5 prev 54.5 (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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