

Morning Report

Thursday, 15 June 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,162	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	33,979	-0.7%	10 yr bond	3.97			-0.01	90 day BBSW	4.22	0.00
Japan Nikkei	33,502	1.5%	3 yr bond	3.92			0.00	2 year bond	4.09	0.07
China Shanghai	3,385	-0.1%	3 mth bill rate	4.59			0.03	3 year bond	3.92	0.08
German DAX	16,311	0.5%	SPI 200	7,190.0			21	3 year swap	4.21	0.03
UK FTSE100	7,603	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.97	0.04
Commodities (close & change)*			TWI	62.2	-	-	62.2	United States		
CRB Index	260.3	-0.5	AUD/USD	0.6765	0.6836	0.6756	0.6798	3-month T Bill	5.08	0.01
Gold	1,942.53	-1.2	AUD/JPY	94.86	95.29	94.60	95.24	2 year bond	4.70	0.03
Copper	8,515.25	56.8	AUD/GBP	0.5364	0.5385	0.5347	0.5369	10 year bond	3.79	-0.02
Oil (WTI futures)	68.58	-0.8	AUD/NZD	1.1001	1.1015	1.0932	1.0950	Other (10 year yields)		
Coal (thermal)	136.15	-1.1	AUD/EUR	0.6271	0.6299	0.6253	0.6276	Germany	2.45	0.03
Coal (coking)	227.00	6.5	AUD/CNH	4.8527	4.8893	4.8487	4.8785	Japan	0.43	0.01
Iron Ore	113.35	0.9	USD Index	103.32	103.40	102.66	103.01	UK	4.39	-0.04

Data as at 7:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The Fed went on pause, as widely anticipated, but the dot plot of Fed members had a hawkish tilt suggesting two more rate hikes are possible. There have been big moves in bond and currency markets. US government bond yields and the US dollar spiked in the wake of the decision, but then reversed some of these gains. In currency markets, the AUD has moved 2 US cents in the space of less than 48 hours and the GBP/USD has hit its highest level in more than a year after UK economic growth data showed a bounce back.

Share Markets: US share markets fell after the US Federal Reserve held the federal funds rate steady after ten straight rate hikes, but then recovered some ground. Wall Street's S&P 500 index closed 0.1% firmer. The tech heavy Nasdaq rose 0.4%.

Interest Rates: US government bond yields shot up after the Federal Reserve held interest rates steady following ten consecutive increases but flagged more tightening is still likely via the dot plot of the Fed members, which showed an increase in the median expectation for the federal funds rate relative to the previous dot plot in March.

The gains were not sustained, as Powell took to the podium for the press conference and appeared to suggest the dot plot should not be seen as guidance. The US 2-year bond yield closed up just 3 basis points, but had shot up 18 basis points in the wake of the Fed decision (from 4.62% to 4.80%).

The US 10-year yield is 2 basis points lower, but had risen 9 basis points in the immediate wake of the Fed rate decision (from 3.76% to 3.85%).

Interest-rate markets, in the wake of the Fed decision, are attaching a 60% chance to a rate hike in July and have pushed out when rate cuts will commence in the US.

The Australian 3-year government bond yield (futures) rose from 3.83% to 3.92% via 3.80%, while the 10-year yield rose from 3.92% to 4.00% via 3.89%. Interest-rate markets are currently attaching a probability of 28% to a rate hike in July and see the peak in the cash rate as 4.50% in November 2023.

Foreign Exchange: The US dollar index shot higher in the immediate wake of the Fed's decision but then unwound some of this appreciation. Ahead of the Fed decision the USD index had fallen to 103.05 – its lowest level since 22 May.

The AUD/USD pierced through resistance at around 0.6815-0.6820 to hit 0.6836.

There have been huge moves in the AUD/USD in a short space of time. In the past 36 hours or so, the Aussie dollar has moved in a range of two US cents - from an intraday low of 0.6738 to an intraday high of 0.6836.

The AUD/USD was not able to sustain gains at 0.6836. The Fed decision knocked the AUD off this

perch and the AUD/USD fell very quickly to 0.6756 before recovering the 0.6800 handle.

The AUD was not the only currency to undergo huge swings. Another stand out was the Sterling. It rose to its highest level against the USD since 26 April 2022 after strong UK gross domestic product and labour data this week boosted chances that the Bank of England would keep raising interest rates. GBP/USD rose to a high overnight of 1.2699 and only sold off modestly after the Fed decision.

The EUR/USD also had notable moves – rising to a one-month high overnight of 1.0864 before the Fed decision led to selling.

Commodities: Oil and most base metal prices ended the trading session softer.

Australia: There was no major economic data releases yesterday. All eyes will be on the labour force survey out later this morning. Leading indicators of employment are easing, but remain elevated. Our Group forecast is for a rise in jobs of 40,000 in the month, but the risks lie to a more modest outcome (of 25,000). The range of forecasts in the market is very wide at -10,000 to +45,000 with consensus sitting at +17,500.

New Zealand: The current account deficit narrowed to NZ\$5.2 billion in the March quarter, from NZ\$10.1 billion in the December quarter.

Eurozone: Industrial production rose 1.0% in May after plunging 3.8% in April. Annual growth was weak at just 0.2%.

United Kingdom: The UK economy recovered in April with monthly GDP rising by 0.2% after a drop of 0.3% in March. However, industrial production figures for May revealed the UK manufacturing sector continues to face challenges. Industrial production fell 0.3% in April and contracted by 1.9% in the twelve months to April.

United States: The US Federal Reserve announced a widely-expected decision to keep the federal funds rate steady between 5.00% to 5.25%. The pause follows ten consecutive rate rises over 14 months, as the Fed took aggressive action to tackle persistently high inflation. In justifying the pause, Powell noted that it takes time for the full effects of monetary restraint to be realised and monetary policy affects the economy with uncertain lags.

Whilst the Fed has paused for breath, the Fed still signalled the inflationary fight is not over and more rate hikes could be on the way. The Fed's decision was published alongside an updated "dot plot" that gathers officials' forecasts for the fed funds rate

until the end of 2025. This dot plot revealed that the median of participant projections is for a federal funds rate of 5.6% at the end of this year, 4.6% at the end of 2024 and 3.4% at the end of 2025. These projections rely on the US economy evolving as projected.

It is worth noting that for the end of this year, the median projection is half a percentage point higher than in the Fed's March projections.

Powell in his press conference stressed that future rate decisions will continue to be made meeting by meeting, based on the totality of incoming data and their implications for the outlook for economic activity and inflation as well as the balance of risks.

He noted inflation has "moderated somewhat since the middle of last year" but that "inflation pressures continue to run high and the process of getting inflation back down to 2 percent has a long way to go". Powell reaffirmed that he is "strongly committed" to returning inflation to the Fed's 2% objective.

Data released ahead of the Fed decision showed that producer prices fell 0.3% in May, deeper than the 0.1% fall expected by consensus. In year-on-year terms, producer prices grew 1.1%, down from 2.3% growth in April. Excluding food and energy, producer prices grew at a monthly pace of 0.2% - in line with consensus forecast – and at an annual rate of 2.8% (down from 3.1% in April).

Please see the key data releases scheduled for the next 24 hours over the page.

Today's key data and events:

NZ GDP Q1 (8:45am)

q/q exp -0.1% prev -0.6%

y/y exp 2.6% prev 2.2%

AU Melb Inst Cons. Inflation Expectations Jun (11am)

CH 1-Year Medium Term Lending Facility Rate exp 2.65%
prev 2.75% (11:20am)

AU Labour Force May (11:30am)

Employment exp 40k prev -4.3k

Unemployment Rate exp 3.7% prev 3.7%

Participation Rate exp 66.7% prev 66.7%

CH Ind Production May y/y May 3.5% prev 5.6% (12pm)

CH Retail Sales May y/y exp 13.7% prev 18.4% (12pm)

CH Surveyed Jobless Rate May exp 5.2% prev 5.2% (12pm)

EZ CPI y/y May Final exp 6.1% prev 6.1% (7pm)

EZ Trade Apr exp €17.5bn prev €17.0bn (7pm)

EZ ECB Meeting exp 4.00% prev 3.75% (10:15pm)

US Retail Sales May (10:30pm)

Advance exp -0.2% prev 0.4%

Ex Auto exp 0.1% prev 0.4%

Ex Auto and Gas exp 0.2% prev 0.6%

Control Group exp 0.2% prev 0.7%

US Import Price Index May exp -0.5% prev 0.4% (10:30pm)

US Export Price Index May exp -0.1% prev 0.2% (10:30pm)

US Initial Jobless Claims Jun 10 exp 245k prev 261k
(10:30pm)

US Empire Mfg Index Jun exp -15.1 prev -31.8 (10:30pm)

US Philad. Fed Index Jun exp -14.0 prev -10.4 (10:30pm)

US Ind Production May exp 0.1% prev 0.5% (11:15pm)

US Business Inventories Apr exp 0.2% prev -0.1% (12am)

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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