

Morning Report

Monday, 24 July 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,314	-0.2%			Last	Overnight Chg		Australia		
US Dow Jones	35,228	0.0%	10 yr bond	4.02		0.01	90 day BBSW	4.36	0.06	
Japan Nikkei	32,304	-0.6%	3 yr bond	3.95		0.01	2 year bond	4.01	0.04	
China Shanghai	3,321	-0.1%	3 mth bill rate	4.46		-0.01	3 year bond	3.95	0.04	
German DAX	16,177	-0.2%	SPI 200	7,300.0		29	3 year swap	4.28	-0.03	
UK FTSE100	7,664	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.01	0.06
Commodities (close & change)*			TWI	62.3	-	-	62.3	United States		
CRB Index	276.5	1.8	AUD/USD	0.6781	0.6788	0.6712	0.6731	3-month T Bill	5.25	0.00
Gold	1,961.94	-7.6	AUD/JPY	94.98	95.79	94.65	95.40	2 year bond	4.84	0.00
Copper	8,444.00	-37.3	AUD/GBP	0.5269	0.5269	0.5232	0.5236	10 year bond	3.83	-0.02
Oil (WTI futures)	77.07	1.4	AUD/NZD	1.0881	1.0916	1.0865	1.0907	Other (10 year yields)		
Coal (thermal)	143.05	1.1	AUD/EUR	0.6091	0.6092	0.6042	0.6049	Germany	2.47	-0.02
Coal (coking)	236.50	0.5	AUD/CNH	4.8656	4.8678	4.8336	4.8362	Japan	0.45	-0.02
Iron Ore	113.05	-0.6	USD Index	100.76	101.19	100.72	101.09	UK	4.28	0.00

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Equities and bond yields were broadly unchanged ahead of a big week for central banks. The US Fed, European Central Bank, and the Bank of Japan are all due to provide policy updates. Investors will be interested in forward guidance, as well as policy outcomes, as we approach the end of hiking cycles. The US dollar index increased slightly, mainly reflecting the fall in the Japanese Yen.

Share Markets: US equities were mixed. The S&P 500 and the Dow Jones finished broadly unchanged. On a weekly basis, the S&P 500 finished 0.7% higher and the Dow Jones finished 2.1% higher.

The NASDAQ closed 0.2% lower on Friday, to be 0.6% lower over the week. The fall on Friday follows a steep drop in large-cap technology stocks on Thursday that resulted from weak earnings results from major US tech companies.

The ASX 200 finished 0.2% lower on Friday. Financial and technology stocks led the decline, with six of eleven sectors finishing the day lower. Across the week however, the ASX 200 finished in the green for the second consecutive week, ending 0.2% higher after a gain of 3.7% over the previous week.

Interest Rates: US treasury yields were broadly unchanged as investors await the outcome, and more importantly the forward guidance, from the US Fed meeting later this week. The 2-year yield remained at 4.84%. The 10-year yield ticked down

by 2 basis points to 3.83%.

Interest rate markets are almost fully pricing a 25-basis point hike from the Fed. Markets are attaching around a 30% chance of another hike by the end of the calendar year. The first full rate cut is expected by the middle of 2024.

Aussie bond futures were also broadly unchanged. The 3-year government bond (futures) yield rose by 1 basis point to 3.95%, while the 10-year (futures) yield also increased by 1 basis point to 4.02%.

Markets are pricing around a 50% chance of a rate hike from the Reserve Bank (RBA) in August following a very strong jobs report. Markets have priced in one more rate hike with a small chance of another by the end of the calendar year. The inflation read for the June quarter, which will be released on Wednesday, will likely see these probabilities adjust.

Foreign Exchange: The AUD/USD pair finished lower as the slowdown in China continues to weigh of the Aussie. After reaching a high of 0.6788 in early trade, the pair declined to a low of 0.6712. It settled at around 0.6731.

The US dollar ended slightly higher against a basket of major currencies. The USD Index traded between a low of 100.72 and a high of 101.19, before settling around 101.09.

Commodities: Commodities were generally higher. Oil and coal were higher while iron ore was flat.

Gold and copper were lower.

The West Texas Intermediate (WTI) price of oil closed at US\$77.07 per barrel.

Australia: There were no major economic data releases on Friday.

United Kingdom: The GfK Consumer Confidence indicator in the United Kingdom declined to -30 index points in July 2023, from -24 points in June. This was worse than the -25 points the market was expecting. Confidence remains deeply entrenched in negative territory. The expected health of the economy and personal finances over the coming year deteriorated sharply over the month. The major purchase index was also down as consumers pared back spending on big ticket items.

Retail sales rose by 0.7% over the month of June, following a downwardly revised 0.1% increase over May. This was much stronger than the growth of 0.2% the market was expecting. The monthly outcome was boosted by summer sales, with increases seen in most sectors, including food, non-food, and non-store retailing. Food bounced back growing by 0.7% following a fall of 0.4% in May. Non-food trade grew by 0.1%, department stores saw a 1.9% increase in sales, while sales at household goods stores grew by 1.5% over the month. However, on a yearly basis retail trade declined by 1.0%, the 15th consecutive month of decline.

Public sector net borrowing excluding banks was in deficit by £18.5 billion in June. This outcome represents a deterioration from the £16.6 billion recorded in May but was better than the £22 billion expected by the market. Higher tax receipts and a fall in debt interest payable were largely offset by increased benefit payments and other costs.

Japan: The Consumer Price Index (CPI) grew by 3.3% over the year to the month of June, up slightly from the 3.2% recorded in May. The June outcome showed one-off hikes in electricity fees were almost offset a retreat in several items including recreational services. On a monthly basis, the CPI grew by 0.2% after being flat in May. Underlying inflation, which strips away fresh food, ticked higher to 3.3% over the year to June, from the 3.2% recorded in May. This was consistent with market expectations.

Bloomberg is reporting that the Bank of Japan is unlikely to make changes to its monetary policy stance this week, which continues to support economic activity. The Japanese Yen extended losses against the US dollar to more than 1.3%.

Today's key data and events:

EZ Markit Mfg PMI Jul Prel. (6pm)
 EZ Markit Services PMI Jul Prel. (6pm)
 NZ Trade Balance Jun prev \$46m (8:45am)
 UK Markit Mfg PMI Jul Prel. (6:30pm)
 UK Markit Services PMI Jul Prel. (6:30pm)
 US Chicago Fed Nat. Act. Index Jun prev -0.15 (10:30pm)
 US Markit Mfg PMI Jul Prel. (11:45pm)
 US Markit Services PMI Jul Prel. (11:45pm)

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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