Morning report

Friday, 6 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,925	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,120	0.0%	10 yr bond	4.58		0.00		90 day BBSW	4.14	0.00
Japan Nikkei	31,075	1.8%	3 yr bond	4.02		-0.03		2 year bond	4.06	-0.09
China Shanghai	3,261	0.1%	3 mth bill rate	4.23		-0.01		3 year bond	4.04	-0.09
German DAX	15,070	-0.2%	SPI 200	6,958.0		2		3 year swap	4.21	-0.05
UK FTSE100	7,452	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.57	-0.09
Commodities (close & change)*			TWI	60.0	-	-	60.0	**United States**		
CRB Index	274.6	-0.8	AUD/USD	0.6325	0.6378	0.6320	0.6370	3-month T Bill	5.33	-0.01
Gold	1,820.30	-1.1	AUD/JPY	94.33	94.70	94.20	94.60	2 year bond	5.02	-0.03
Copper	7,837.50	-58.0	AUD/GBP	0.5212	0.5244	0.5204	0.5225	10 year bond	4.72	-0.01
Oil (WTI futures)	82.55	-1.7	AUD/NZD	1.0697	1.0719	1.0666	1.0678	**Other (10 year yields)**		
Coal (thermal)	144.00	-4.8	AUD/EUR	0.6020	0.6059	0.6017	0.6038	Germany	2.88	-0.04
Coal (coking)	362.00	1.0	AUD/CNH	4.6281	4.6640	4.6269	4.6536	Japan	0.81	0.00
Iron Ore	114.75	-0.4	USD Index	106.80	106.86	106.32	106.34	UK	4.54	-0.04

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: Markets treaded water ahead of the US non-farm payrolls release tonight. The data has the potential to test the recent surge in treasury yields but could equally reignite a further bond sell-off. Traders were therefore cautious of taking large bets either side ahead of the release. US equities closed slightly lower, treasury yields were mixed, and the US dollar softened.

Share Markets: US equities finished slightly weaker after unwinding sharp losses in early trade. The S&P 500 closed down 0.1% after losing as much as 0.9% in the first two hours of trade. The NASDAQ was also 0.1% lower, while the Dow Jones was flat.

The ASX 200 gained 0.5% yesterday led by healthcare and consumer staples. Futures are pointing to a marginally positive open this morning.

Interest Rates: US 2-and-10-year yields closed slightly lower after a choppy session. The 2-year yield eased 3 basis points to 5.02%, while the 10-year yield dropped 1 basis point to 4.72%. The 2-10-year portion of the yield curve closed its steepest since October last year. Duration underperformed with the 30-year yield rising 3 basis points to 4.89%.

The probability of an additional Fed rate hike has pulled back below 40%. Rate cuts are fully priced for July next year.

Moves in Aussie bond futures were fairly muted. The 3-year (futures) yield lost 3 basis points to 4.02%, while the 10-year was unchanged at 4.58%.

The odds of another hike from the Reserve Bank have dropped to around 75% by March next year. Rate cuts are not yet priced in for 2024.

Foreign Exchange: A quiet night in the US treasury market gave major currencies a further breather against the US dollar. The DXY index slipped from a high of 106.86 to a low of 106.32 and is currently trading slightly higher at 106.34.

The Aussie dollar firmed, breaking through resistance at 0.6350 to reach an intra-day high of 0.6378. The AUD/USD pair was trading at 0.6370 at the time of writing.

Commodities: The price of oil experienced another sharp fall. The West Texas Intermediate (WTI) futures contract dropped 2.3% to US$82.55. WTI oil has lost 12.1% in just 6 sessions and is at its lowest level in 5 weeks.

Australia: The trade surplus widened to $9.6 billion in August from $7.6 billion in July. The result was primarily driven by a staggering 97% spike in gold exports, taking the value of gold exports to a record high. Overall, exports expanded 4.0%, while imports eased 0.4% in the month.

United States: San Francisco Fed President, Mary Daly, indicated that the surge in long-bond yields is unlikely to imperil a soft-landing, adding that the steepening yield curve may strengthen the case for the Fed to remain on pause. Daly noted that “the need for us to take further action is diminished because financial markets are already moving in that direction and they've done the work. We don't need to do it more".

Thomas Barkin, head of the Richmond Fed Branch, also believes the soft-landing is in tact and attributed the sharp run up in longer-dated bond yields to a combination of stronger economic conditions and the large volume of treasury issuance.

The trade deficit narrowed to $59.8 billion in August from $64.7 billion in July. This was the smallest deficit since September 2020. The value of imports declined 0.7% alongside slowing domestic demand and the broader disinflationary pulse, while exports rose 1.6% in the month.

Today's key data and events:

AU RBA Financial Stability Review (11:30am)

EZ Ger. Factory Orders Aug exp 1.5% prev -11.7% (5pm)

US Non-farm Payrolls Change Sep exp 170k prev 187k (11:30pm)

US Unemploy. Rate Sep exp 3.7% prev 3.8% (11:30pm)

US Avg. Hrly Earnings Sep exp 0.3% prev 0.2% (11:30pm)

US Cons. Credit Aug exp $11.7bn prev $10.4bn (6am)

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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