

Tuesday, 15 August 2023

| Equities (close & % change)   |          |       | Sydney Futures Exchange (last & change) |      |             |                      |         | Interest rates (close & change) |                               |      |       |
|-------------------------------|----------|-------|---|------|-------------|----------------------|---------|---------------------------------|-------------------------------|------|-------|
| S&P/ASX 200                   | 7,277    | -0.9% |   |      | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |                               |      |       |
| US Dow Jones                  | 35,308   | 0.1%  | 10 yr bond                              |      | 4.24        | 0.05                 |         | 90 day BBSW                     | 4.17                          | 0.00 |       |
| Japan Nikkei                  | 32,060   | -1.3% | 3 yr bond                               |      | 3.97        | 0.07                 |         | 2 year bond                     | 3.95                          | 0.07 |       |
| China Shanghai                | 3,332    | -0.3% | 3 mth bill rate                         |      | 4.24        | 0.02                 |         | 3 year bond                     | 3.90                          | 0.08 |       |
| German DAX                    | 15,904   | 0.5%  | SPI 200                                 |      | 7,219.0     | 0                    |         | 3 year swap                     | 4.18                          | 0.04 |       |
| UK FTSE100                    | 7,507    | -0.2% | FX Last 24 hrs                          | Open | High        | Low                  | Current | 10 year bond                    | 4.20                          | 0.08 |       |
| Commodities (close & change)* |          |       | TWI                                     |      | 60.6        | -                    | -       | 60.6                            | <b>United States</b>          |      |       |
| CRB Index                     | 278.1    | -1.6  | AUD/USD                                 |      | 0.6497      | 0.6503               | 0.6454  | 0.6487                          | 3-month T Bill                | 5.26 | -0.01 |
| Gold                          | 1,907.10 | -6.7  | AUD/JPY                                 |      | 94.19       | 94.51                | 93.58   | 94.41                           | 2 year bond                   | 4.97 | 0.07  |
| Copper                        | 8,257.25 | -95.0 | AUD/GBP                                 |      | 0.5117      | 0.5127               | 0.5097  | 0.5114                          | 10 year bond                  | 4.19 | 0.04  |
| Oil (WTI futures)             | 82.51    | -0.7  | AUD/NZD                                 |      | 1.0851      | 1.0895               | 1.0839  | 1.0847                          | <b>Other (10 year yields)</b> |      |       |
| Coal (thermal)                | 153.50   | 2.0   | AUD/EUR                                 |      | 0.5935      | 0.5952               | 0.5907  | 0.5947                          | Germany                       | 2.64 | 0.01  |
| Coal (coking)                 | 253.00   | 0.7   | AUD/CNH                                 |      | 4.7166      | 4.7332               | 4.6991  | 4.7220                          | Japan                         | 0.61 | 0.03  |
| Iron Ore                      | 99.95    | -0.5  | USD Index                               |      | 102.86      | 103.46               | 102.77  | 103.15                          | UK                            | 4.57 | 0.04  |

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:** With little top tier economic data released overnight, markets continued to price in a soft economic landing scenario where interest rates would be elevated for longer. US bond yields increased, the US dollar advanced and US equities rose in volatile trading.

The Aussie dollar remained under selling pressure, with traders positioning ahead of economic indicators coming out of China and Australia's Wage Price Index for the June quarter, which will be released later this morning.

**Share Markets:** US equities rose in volatile trading. The gains were led by the tech sector, which reversed some of the losses recorded over the past two weeks.

The Dow rose 0.1%, the S&P 500 index finished 0.6% higher, while the tech heavy Nasdaq outperformed and finished 1.1% higher. With limited data to digest overnight, investors will be looking at the economic data and earnings results that will be published this week for some direction.

The ASX 200 fell for the second consecutive day, closing 0.9% lower. The decline was led by losses in the mining and real estate sectors, with eight of eleven sectors finishing the day lower. Futures are pointing to a flat open this morning.

**Interest Rates:** US bond yields continued to increase across the curve. The US 2-year bond yield

increased by 7 basis points to 4.97%. The US 10-year bond yield increased by 4 basis points to 4.19%.

The probability of a rate hike from the US Federal Reserve next month remains very small. Markets have priced in one full rate cut by the middle of 2024.

In Australia, the chance attached to a rate hike next month from the Reserve Bank by swap markets also is very small.

Aussie bond futures moved higher. The 3-year government bond (futures) yield increased by 7 basis point to 3.97%, while the 10-year (futures) yield increased by 5 basis point to 4.24%.

Interest-rate markets continue to price no chance of a hike at the Reserve Bank's (RBA) September meeting but have a 50% probability of one more hike sometime in this cycle.

**Foreign Exchange:** The Australian dollar continues to remain under selling pressure. China's underwhelming economic recovery, and markets pricing in the end of the RBA's hiking cycle, have contributed to the weakness in the Aussie. The AUD/USD traded in a very narrow range overnight (low of 0.6454 and high of 0.6503), falling to a low of 0.6454 – the lowest level since November 2022, and below the previous low of 0.6485 reached on 1 June 2023. The release of Australia's Wage Price

Index for the June quarter later this morning, and economic activity data coming out of China, could see some further volatility in the AUD/USD pair.

Supported by higher yields, the US dollar ended higher against a basket of major currencies. The USD Index traded between a low of 102.77 and a high of 103.46, before settling around 103.15.

**Commodities:** Commodity prices were mostly lower. The West Texas Intermediate (WTI) oil future also fell, closing at US\$82.51 per barrel.

**Australia:** There was no major data released yesterday.

**New Zealand:** The BNZ Business performance of services index fell to 47.8 index points in July, from 49.6 points in June, to be well below the long-term average of 53.5 points. Three of the five sub-indices are below 50 index points (sales, employment, and new orders), which indicates that there are more respondents contracting than expanding.

Net migration fell to 5,033 in June from 7,061 in May. Over the year to June 2023, there was a net migration gain of 86,800, reversing the net migration loss of 17,600 over the year to June 2022.

**United States:** The Survey of Consumer Expectations, published by the Federal Reserve Bank of New York, showed that inflation expectations declined over the month of July. The 1-year ahead measure fell to 3.5% from 3.8%, and the 3- and 5-year ahead measures fell to 2.9% from 3.0%. At the same time, consumers pulled back their expectations that the unemployment rate would increase over the year ahead – with only 37% of those surveyed expecting an increase, the lowest reading since April 2022. It looks like more consumers are also expecting a soft economic landing.

#### Today's key data and events:

AU RBA Board Meeting August Minutes (11:30am)  
 AU Wage Price Index Q2 (11:30am)  
 q/q exp 1.0% prev 0.8%  
 y/y exp 3.8% prev 3.7%  
 CH Industrial Production Jul y/y prev 4.4% (12pm)  
 CH Retail Sales Jul y/y prev 3.1% (12pm)  
 EZ EU ZEW Expectations Aug prev -12.2 (7pm)  
 JN GDP Q2 Prel. prev 0.7% (9:50am)  
 JN Indust. Production Jun Final prev 2.0% (2:30pm)  
 UK ILO Unemployment Rate Jun prev 4.0% (4pm)  
 US Retail Sales Jul prev 0.2% (10:30pm)  
 US Import Price Index Jul prev -0.2% (10:30pm)  
 US Export Price Index Jul prev -0.9% (10:30pm)  
 US NY Empire Mfg Aug prev 1.1 (10:30pm)  
 US Business Inventories Jun prev 0.2% (12am)  
 US NAHB Housing Market Index Aug prev 56 (12am)  
 US Total Net TIC Flows Jun prev -\$167.6bn (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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