Morning report

Wednesday, 19 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,284	-0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,952	1.1%	10 yr bond	3.94		-0.03		90 day BBSW	4.29	-0.01
Japan Nikkei	32,494	0.3%	3 yr bond	3.87		0.00		2 year bond	3.94	-0.03
China Shanghai	3,352	-0.4%	3 mth bill rate	4.39		0.01		3 year bond	3.88	-0.03
German DAX	16,125	0.4%	SPI 200	7,278.0		39		3 year swap	4.21	-0.01
UK FTSE100	7,454	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.98	-0.01
Commodities (close & change)*			TWI	62.1	-	-	62.1	**United States**		
CRB Index	271.9	4.0	AUD/USD	0.6815	0.6837	0.6789	0.6812	3-month T Bill	5.23	-0.01
Gold	1,978.72	23.7	AUD/JPY	94.53	94.78	93.78	94.56	2 year bond	4.77	0.02
Copper	8,487.50	-185.8	AUD/GBP	0.5213	0.5227	0.5189	0.5224	10 year bond	3.79	-0.02
Oil (WTI futures)	75.75	1.6	AUD/NZD	1.0776	1.0863	1.0763	1.0853	**Other (10 year yields)**		
Coal (thermal)	142.35	4.3	AUD/EUR	0.6066	0.6077	0.6045	0.6068	Germany	2.39	-0.09
Coal (coking)	236.00	8.0	AUD/CNH	4.8929	4.9067	4.8790	4.9004	Japan	0.48	0.00
Iron Ore	113.65	0.0	USD Index	99.89	100.11	99.59	99.94	UK	4.33	-0.10

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: Mixed economic data and positive earnings results from several US banks drove market sentiment overnight. Short-term bond yields ended higher, while longer-term yields ended lower. Equity markets posted gains on the back of strong earnings results, and the US dollar ended slightly higher against major currencies.

Share Markets: US markets closed up on the day and near their session highs following positive earnings results from a number of US banks. The S&P 500 closed 0.7% higher, the Nasdaq gained 0.8%, while the Dow Jones jumped 1.1% – its seventh straight day of gains and the longest winning streak in over two years.

The ASX 200 closed 0.2% lower yesterday. Seven of the 11 sectors closed lower. Real estate, communication services, and industrials were the weakest performers, each down more than 1%. Health care and financials gained, rising 0.9% and 0.8%, respectively.

Interest Rates: The US 2-year treasury yield rose 2 basis points, to 4.77%, while the 10-year yield fell 2 basis points, to 3.79%. The moved resulted in the 2-10-year spread falling to -98.5 basis points, around 10 basis points above the lowest levels set during this cycle so far. Interest-rate markets are almost fully priced (96%) for a 25-basis-point hike from the Fed in July. Looking further, markets have some chance of a second hike priced in by the end of the year, but then expect rates to be cut through 2024.

Australian bond yields broadly mimic moves in the US. The 3-year government bond yield (futures) ended flat, at 3.87%. The 10-year government bond yield (futures) fell 3 basis points, to 3.94%. Interest-rate markets are currently attaching a 24% probability to a hike from the Reserve Bank (RBA) in August. Looking forward, markets are currently priced for one 25-basis-point hike by the end of 2023 and expect the cash rate to peak at around 4.45% by early 2024.

Foreign Exchange: The US dollar ended slightly higher against a basket of major currencies. The USD Index traded between a low of 99.59 and a high of 100.11. It was trading at 99.94 at the time of writing.

The AUD/USD pair swung between gains and losses during the session, before ending not much changed over the day. The pair initially rose to a high of 0.6837 during the Asian session, before selling off to hit a low of 0.6789 during the crossover of the London and New York session. It later recovered some ground, to close at 0.6812.

Commodities: Oil rose as data showed that US crude inventories declined by 797k barrels last week. Gold and coal ended the session higher, while copper lost ground.

Australia: The RBA Board left the cash rate unchanged at 4.10% at its July meeting. The minutes, released yesterday, provided more information on the reasoning behind the decision.

Rapid increases in the cash rate to date and downside risks to economic growth tipped the scales towards a pause, but inflation risks and the case for additional tightening remain.

Uncertainty around the economic and inflation outlook is high. The Board took the view to pause and wait for additional data before making another decision on whether additional monetary policy tightening is required.

The economy is slowing, and the RBA Board clearly acknowledged there was a risk that growth could be weaker than forecast given that policy was clearly restrictive at the prevailing cash rate. References to traversing a "narrow path" were removed, suggesting the Board thinks the probability of downside risks to growth has increased compared to previous months.

The Board will receive updates of key information ahead of the August meeting. The most important of these will be a full set of updated economic forecasts from the RBA staff in the August Statement on Monetary Policy. This will show whether the Board's intended path of returning inflation to the top of the 2-3% target band by mid-2025 remains intact.

Other key releases ahead of the August Board meeting include the June quarter inflation report, and updates on the labour market and consumer spending.

United States: Retail sales rose 0.2% in June, following an upwardly revised 0.5% outcome in May – revised higher from an initial reading of 0.3%. The result was weaker than the 0.5% expected by consensus, but the miss was tempered by the upward revision to past data. The measure excluding auto and gas was in line with consensus expectations, while the control group measure beat expectations. Specifically, the control group measure printed at 0.6% for July, above consensus expectations of 0.3%. This followed a 0.3% result in May (also revised slightly higher). The results paint a somewhat mixed picture but overall, show that a continued deceleration in the pace of retail spending remains broadly intact, as aggressive hikes from the Fed impact consumers.

Industrial production disappointed expectations and recorded a second consecutive monthly fall. Industrial production fell 0.5% in June, following a 0.5% fall in May. The outcome was lower than the flat result that was expected by consensus. The result reflects a decline in manufacturing output as goods demand slows.

Business inventories rose 0.2% in May, in line consensus expectations. This follows a 0.1% gain in April. Retail inventories were higher, while inventories for manufactures declined in the month. Wholesaler inventories were flat in May, following a decline in April.

Homebuilder sentiment continued to recover and hit a 13-month high in July. The NAHB housing market index rose to 56 in the month, in line with expectations. This followed a result of 55 in June and the index has now been at or above 50 for three consecutive months. Sentiment continues to be boosted by strong demand for new homes as buyers are increasingly turning their attention to new builds amid tight supply in the established housing market.

Today's key data and events:

NZ CPI Q2 q/q exp 0.9% prev 1.2% (8:45am)

AU WBC Leading Index Jun prev -0.3% (10:30am)

UK CPI Jun exp 0.4% prev 0.7% (4pm)

EZ CPI Jun Final exp 0.3% prev 0.35 (7pm)

US Building Permits Jun exp 0.2% prev 5.6% (10:30pm)

US Housing Starts Jun exp -9.3% prev 21.7% (10:30pm)

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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