Morning report

Bank of Melbourne

Monday, 21 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,148	0.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,501	0.1%	10 yr bond	4.22		-0.01		90 day BBSW	4.15	-0.01
Japan Nikkei	31,451	-0.6%	3 yr bond	3.88		-0.01		2 year bond	3.92	-0.08
China Shanghai	3,283	-1.0%	3 mth bill rate	4.18		0.00		3 year bond	3.89	-0.08
German DAX	15,574	-0.7%	SPI 200	7,070.0		-23		3 year swap	4.14	0.02
UK FTSE100	7,262	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.23	-0.09
Commodities (close & change)*			TWI	59.9	-	-	59.9	**United States**		
CRB Index	275.5	1.1	AUD/USD	0.6402	0.6429	0.6379	0.6406	3-month T Bill	5.27	-0.01
Gold	1,889.31	-0.1	AUD/JPY	93.37	93.56	92.79	93.16	2 year bond	4.94	0.01
Copper	8,243.75	13.9	AUD/GBP	0.5023	0.5044	0.5019	0.5030	10 year bond	4.25	-0.02
Oil (WTI futures)	81.25	0.9	AUD/NZD	1.0809	1.0819	1.0780	1.0814	**Other (10 year yields)**		
Coal (thermal)	162.70	4.7	AUD/EUR	0.5890	0.5901	0.5877	0.5890	Germany	2.62	-0.09
Coal (coking)	255.00	2.0	AUD/CNH	4.6761	4.6875	4.6628	4.6794	Japan	0.64	-0.01
Iron Ore	104.20	-2.6	USD Index	103.39	103.68	103.23	103.43	UK	4.68	-0.07

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 were relatively quiet towards the end of last week as there was little major data flow to move markets. Bond yields ended mixed, with short-term yields slightly higher and long-term yields slightly lower. Equity markets recorded little gains as investors searched for direction. The US dollar moved between gains and losses but ended the session near where it opened, as did the Aussie dollar.

Share Markets: Equity markets ended broadly unchanged on the session. Megacap tech stocks recorded declines as higher interest rates and the prospect that they remain higher for longer weighed on tech valuations. These were offset by gains across other parts of the market for a broadly flat finish. The S&P 500 ended the session broadly unchanged. The Dow Jones eked out a small 0.1% gain, while the Nasdaq lost 0.2% – dragged down by big tech.

Over the week, the S&P 500 lost 2.1%, the Dow Jones dropped 2.2%, and the Nasdaq lost 2.6% as equity markets were weighed down by the move higher in interest rates.

The ASX 200 ended unchanged on Friday. Four of 11 sectors recorded gains, while the rest fell. Real estate and utilities were the strongest performers, up over 1% each. Communication services and consumer discretionary were the worst performers, dropping by around 1% or more each. Over the week, the ASX 200 lost 2.6% – the worst weekly performance in 11 months. The market is set to open lower this morning as futures are pointing to a soft open.

Interest Rates: Short-term interest rates rose, while long-term rates fell – leading to a slight flattening of the yield curve. The US 2-year treasury yield ended 1 basis point higher, at 4.94%. The 10-year yield lost 2 basis points, to 4.25%. Interest-rate markets continue to see little chance of a hike at the Fed's September meeting – pricing only an 11% probability. Looking further forward, markets see a slightly higher than one-third chance of one more hike in this cycle, before cuts are priced from mid-2024 onwards.

Australian government bond yields fell slightly in Friday's session. The 3-year and 10-year Australian government bond yield (futures) both lost 1 basis point, to 3.88% and 4.22%, respectively. Interest-rate markets expect the RBA to be on hold in the near term but are pricing around a 40% chance of one more hike in this cycle, by mid-2024. A cut is not fully priced until beyond 2024.

Foreign Exchange: The USD Index ranged between a low of 103.23 and a high of 103.68, before closing at 103.43 – not far from where it opened.

The AUS/USD pair ranged between a low of 0.6379 and a high of 0.6429 on Friday after losing significant ground through the week. It was trading at 0.6406 at the time of writing – not far from where it opened the session. The AUD has been under pressure from a combination of softer Australian and Chinese data and a stronger USD.

Commodities: Oil prices rose on Friday to above US$81. However, oil recorded its first weekly loss since June as traders assess the economic outlook and its impact on prices. Copper and coal were both higher, while iron ore and gold dropped. Investors will be watching industrial negotiations at Woodside's Australian facilities this week and their potential impacts on LNG supply and prices, as media reports flag potential worker strikes if a deal is not reached by Wednesday.

Australia: There were no major data releases on Friday.

Eurozone: The consumer price index (CPI) was finalised at 5.3% over the year to July. This was unchanged from the preliminary reading. The core inflation result, which strips out volatile food and energy prices and is watched closely by central banks, was also unchanged from the preliminary reading, at 5.5% in annual terms. The result shows that inflationary pressures remain elevated in the region. However, in a positive sign, the monthly reading of core inflation remained at -0.1% in July.

Japan: The CPI rose 3.3% over the year to July. This was unchanged from annual growth in June and was in line with consensus expectations. Excluding fresh food, core CPI rose 3.1%. When breaking the data down further and excluding fresh food and energy, consumer prices jumped 4.3% over the year to July – matching the May outcome, which was the fastest annual pace in 42 years. This was in line with expectations and was an acceleration from the 4.2% pace in June. Inflationary pressures are shifting towards services, as services inflation hit 2% for the first time in 30 years. The results demonstrate that price pressures are spreading across a broader range of spending categories. This will be monitored closely by the Bank of Japan as it wants to be assured that inflation is sustainably returning to its target before continuing the gradual shift and normalisation of its accommodative monetary policy settings.

United Kingdom: The volume of retail spending fell by more than expected in July as aggressive monetary policy tightening from the Bank of England, cost-of-living pressures, and poor weather conditions impacted consumer behaviour and spending in the month. Retails sales slipped 1.2% in July. This followed a 0.6% gain in June and was below expectations, which centred on a 0.6% decline. Excluding fuel, sales were 1.4% lower in the month, following a 0.7% gain in June. This was also below expectations for a 0.7% drop. In annual terms, sales excluding fuel were 3.4% lower.

Falls were recorded across most major categories, including food and non-food spending, such as household goods, non-specialised stores, and textile, clothing & footwear. Spending on non-store retailing, in addition to spending on fuel and other stores recorded gains in the month.

Today's key data and events:

NZ Trade Balance Jul prev $9.0m (8:45am)

UK Rightmove House Prices Aug prev -0.2% (9:01am)

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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