Morning report

Friday, 27 January 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,468	-0.3%		Last		Overnight Chg		Australia		
US Dow Jones	33,929	0.5%	10 yr bond	3.53		0.05		90 day BBSW	3.26	-0.02
Japan Nikkei	27,363	-0.1%	3 yr bond	3.17		0.04		2 year bond	3.08	0.00
China Shanghai	3,422	0.8%	3 mth bill rate	3.60		0.03		3 year bond	3.14	0.00
German DAX	15,133	0.3%	SPI 200	7,459.0		27		3 year swap	3.63	0.04
UK FTSE100	7,761	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.50	0.00
Commodities (close & change)*			TWI	63.0	-	-	0.0	United States		
CRB Index	279.5	2.1	AUD/USD	0.7105	0.7142	0.7079	0.7116	3-month T Bill	4.55	-0.01
Gold	1,946.11	8.8	AUD/JPY	92.05	92.82	91.65	92.70	2 year bond	4.19	0.06
Copper	9,304.50	-1.5	AUD/GBP	0.5731	0.5752	0.5721	0.5733	10 year bond	3.49	0.05
Oil (WTI futures)	81.05	0.9	AUD/NZD	1.0959	1.0986	1.0954	1.0963	Other (10 year yields)		
Coal (thermal)	241.70	5.7	AUD/EUR	0.6509	0.6544	0.6501	0.6533	Germany	2.22	0.06
Coal (coking)	338.33	5.0	AUD/CNH	4.8106	4.8199	4.7770	4.7930	Japan	0.49	0.05
Iron Ore	126.10	0.5	USD Index	101.65	102.18	101.50	101.83	UK	3.32	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: There was a risk positive tone as investors digested several tier one US economic data releases. US GDP outcomes were stronger than expected, fuelling optimism that the economy could achieve a soft landing. US labour market indicators suggest continued resilience. All eyes will now turn to the Fed's preferred measure of inflationary pressures, the Personal Consumption Expenditure price index, which will be released overnight.

US equity markets ended higher. Bond yields were also higher across the curve while the US dollar was stronger against major currencies.

Share Markets: Equities advanced in volatile trading as investors assessed mixed earnings and the stronger than expected US economic data. The S&P 500 ended 0.9% higher on the day. The Nasdaq outperformed, ending 1.5% higher as demand for tech stocks remained strong. Big names like Apple, Microsoft and Alphabet had strong support. The Dow Jones advanced by 0.5%.

The ASX 200 ended Wednesday 0.3% lower. The higher-than-expected underlying inflation figures quashed hopes for a pause in the Reserve Bank's interest rate hike cycle next month. 7 of 11 sectors were lower, led by technology, mining and energy stocks.

Interest Rates: Bond yield increased across the curve. The US 2-year treasury yield increased by 6 basis points to 4.19%. The 10-year yield increased by 5 basis points lower to 3.49%.

Interest-rate markets are pricing in 26 basis points of tightening at the upcoming Fed meeting and expect the fed funds rate to peak at 4.9% in mid-2023.

The Australian 3-year government bond yield (futures) increased by 4 basis points to 3.17%, while the 10-year government bond yield (futures) increased by 5 basis points to 3.53%.

Interest-rate markets are pricing a 79% probability of a 25-basis-point hike at the February Reserve Bank Board meeting. This is up from 50% before the release of domestic inflation data. Markets are pricing the cash rate to peak near 3.70% toward the latter part of 2023.

Foreign Exchange: There was continued support for the Aussie dollar that has now consolidated above 0.70 against the greenback. The AUD/USD pair is trading around 0.7116. The pair traded from a low of 0.7079 to a high of 0.7142 – the highest level since August 2022.

The US dollar index was stronger against major currencies. The DXY index fell to a low of 101.50, before lifting to an intra-day high of 102.18. The US dollar is currently sitting around 101.83.

Commodities: Commodities were broadly stronger. The West Texas Intermediate (WTI) futures contract remained above USD80 per barrel and is currently trading at USD81.05. Gold, coal and iron ore were higher. Copper was down on the day.

Australia: Headline inflation remained elevated in the December quarter of 2022, increasing by 1.9% in quarterly terms to be 7.8% higher in annual terms. The annual rate is near its highest in nearly 33 years. The underlying measure of inflation increased by 1.7% in quarterly terms, taking the annual rate to a record high of 6.9%.

The headline outcome was just under the Reserve Bank's (RBA) forecast of 8.0%. But the underlying measure was well above the RBA's forecast of 6.5%.

Goods inflation is showing some tentative signs of easing, but this may be happening too slowly for the RBA's liking. Troubling for the RBA is that price pressures have broadened, especially for a wide range of prices in the services industry.

Services inflation accelerated to 5.5% per annum, reaching its highest rate since 2008. This was driven by the hospitality industry with consumers seemingly unfazed by the 10.9% quarterly increase in the price of holiday travel and accommodation.

It's also evident in the broad-based nature of price increases - more than 85% of the Consumer Price Index (CPI) subcategories experienced annual increases of more than 2.5%.

The key for the RBA to decipher is whether the increase in inflation is permanent or it reflects the last hurrah before consumers tighten their belts. The RBA next meets in early February. Another rate hike of 25 basis points remains our call.

United States: GDP expanded by an annualised 2.9% in the December quarter 2022. This was higher than the 2.6% the market was expecting but lower than the 3.2% recorded in the September quarter – signalling a slowdown in the economy. The slowdown was driven by softer consumer spending, exports and business and residential investment. Price index increased 3.5% in the December quarter after increasing by 4.4% in the September quarter.

Durable goods orders (orders received by manufacturers of goods meant to last at least three years) increased by 5.6% over the month of December 2022. It was the largest increase since July 2020 and above the 2.5% increase the market was expecting. Transportation equipment drove the increase - excluding transportation, new orders decreased 0.1%, better than the fall of 0.2% the market was expecting. percent.

New home sales increased to a annualised rate of 616K in December of 2022, the highest value in four months. This was higher than the 617k the market was expecting and the 602k recorded in the month of November. Over the 2022 calendar year, an estimated 644k new homes were sold, 16.4% below the 2021 figure of 771k – a clear sign higher rates were biting.

Weekly jobless claims came in at 186k, better than the 205k the market was expecting and 192k recorded in the previous week. This suggests that the labour market remains resilient.

Today's key data and events:

AU Trade Price Indices Q4 (11:30am)
Export Prices prev -3.6%
Import Prices prev 3.0%
AU PPI Q4 prev 1.9% (11:30am)
EZ M3 Money Supply Dec (8:00pm)
EZ Consumer Confidence Jan final
EZ Economic Confidence Jan
UK Nationwide House Prices Jan (Sat 28 Jan)
US Personal Income Dec 0.4% (12:30am)
US Personal Spending Dec 0.1% (12:30am)
US PCE Core Dec prev 0.2% (12:30am)
US Pending Home Sales Dec 640k (2:00am)
US UoM Consumer Sentiment Jan final prev 59.7 (2:00am)

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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