Morning report

Friday, 28 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,456	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,283	-0.7%	10 yr bond	4.04		0.11		90 day BBSW	4.28	-0.07
Japan Nikkei	32,891	0.7%	3 yr bond	3.89		0.09		2 year bond	3.87	-0.09
China Shanghai	3,372	-0.2%	3 mth bill rate	4.36		0.02		3 year bond	3.81	-0.09
German DAX	16,406	1.7%	SPI 200	7,367.0		-44		3 year swap	4.24	0.00
UK FTSE100	7,693	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.92	-0.09
Commodities (close & change)*			TWI	62.0	-	-	62.0	**United States**		
CRB Index	280.2	-0.7	AUD/USD	0.6760	0.6821	0.6698	0.6708	3-month T Bill	5.26	-0.01
Gold	1,946.00	-26.1	AUD/JPY	94.78	95.42	92.97	93.55	2 year bond	4.93	0.08
Copper	8,552.00	-51.3	AUD/GBP	0.5222	0.5259	0.5222	0.5242	10 year bond	4.00	0.13
Oil (WTI futures)	79.73	-0.4	AUD/NZD	1.0885	1.0899	1.0842	1.0850	**Other (10 year yields)**		
Coal (thermal)	147.75	-3.2	AUD/EUR	0.6097	0.6142	0.6095	0.6111	Germany	2.47	-0.01
Coal (coking)	241.00	2.0	AUD/CNH	4.8347	4.8688	4.8039	4.8106	Japan	0.45	-0.01
Iron Ore	110.10	0.4	USD Index	101.10	101.84	100.55	101.75	UK	4.31	0.03

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 dominated by the rate decision from the European Central Bank and news reports that the Bank of Japan may announce a tweaking of its yield curve control program later today.

Share Markets: Share markets turned lower after stronger-than-expected US GDP data supported the idea that the US may avoid a recession and shortened the odds of more tightening in the US. News reports that Japan's central bank may tweak its yield curve control program also spurred the sell off. The Dow fell 0.7% at the close, the S&P fell 0.6% and the Nasdaq was 0.6% weaker.

Interest Rates: The US 2-year treasury yield jumped from 4.82% to 4.93%, while the 10-year yield rose from 3.85% to 4.02%. Interest-rate markets currently price the Fed funds rate, currently 5.375% (mid), to be 6 basis points higher at the next meeting on 21 September.

The Australian 3-year government bond yield (futures) rose from 3.80% to 3.92%, the 10-year yield from 3.93% to 4.07%. Interest-rate markets currently price the Reserve Bank cash rate, currently at 4.10%, to be 7 basis points higher at the next meeting on 1 August, and another 17 basis points higher by February.

Foreign Exchange: The US dollar index appreciated against the major currencies except for the Japanese yen. The yen appreciated on news reports the Japanese central bank may announce it will tweak its yield curve control program later today. USD/JPY fell from 141.32 to 138.77, reflecting the strengthening yen. The EUR/USD initially rose after a rate hike was delivered in the eurozone, but then fell to 1.1150 to 1.0966, the strong US data also weighing. AUD/USD fell from near 0.6820 to 0.6698. NZD fell from 0.6274 to 0.6175. AUD/NZD fell from 1.0899 to 1.0845.

Commodities: Most commodity prices softened in overnight trade.

Australia: Westpac published a new business quarterly snapshot yesterday, which drew on internal data to deliver key insights about business lending.

One of the key themes was that Australian businesses are moving into the next part of the economic cycle from a starting position of financial strength. Indeed, businesses have been preparing for tougher times by improving their liquidity positions, including by paying down debt where possible, increasing liquid assets, maintaining credit lines, and investing in productive capacity.

Businesses in the education, health, retail, and wholesale industries are in a particularly good starting position entering the slowdown.

Despite pressures on input costs from rising inflation, business deposits have grown, and Westpac's measure of businesses' liquidity is around 30% above pre-pandemic levels. This gives businesses the ability to be nimble when conditions change, with some business customers waiting for the right opportunities to invest and expand.

Another indicator of strength for SMEs is coming through new dynamics in the composition of financing, with many businesses looking to borrow for investment rather than operational needs.

Business confidence has not waned as much as consumer confidence and whilst the pace business credit growth has slowed, it has remained resilient. These factors will need to be taken into account when the Reserve Bank meets next Tuesday. The slowdown so far in the economy has mainly be led by consumers.

Eurozone: The European Central Bank (ECB) increased its key rate by 25 basis points to 3.75%, matching the previous record set in 2000-01. However, there was a less hawkish nuance, dropping the “need to do more” tightening to get inflation towards target, and stating that they are now operating on a meeting-by-meeting basis and driven by data dependency. Having said that, Lagarde added that if there is a pause, it would not necessarily be for an extended period.

Japan: A Bank of Japan (BoJ) shift may be at hand. News reports suggest the BoJ will discuss tweaking its yield curve control program today to let long-term rates rise above its 0.5% cap by "a certain degree." Governor Kazuo Ueda and his board is expected to retain its ultra easy monetary policy but may sharply raise its 2023 inflation forecast.

United States: The first estimate for June quarter GDP growth surprised meaningfully to the upside stoking optimism of a potential soft landing in the US. The US economy expanded at an annualised rate of 2.4% in the June quarter, well above consensus expectations for a 1.8% annualised gain. The increase represents an acceleration on March quarter growth which printed at 2.0% in annualised terms. Despite continuing to slow, household consumption proved a key upside surprise, showing considerably more resilience than expected.

The core personal consumption expenditure (PCE), an important measure of inflation, increased at a slower pace than anticipated strengthening evidence that inflation is slowing without a material weakening in economic activity. The core PCE gained 3.8% over the June quarter, its slowest quarterly increase since the March quarter of 2021.

Durable goods orders rose for a third consecutive month in June, providing another sign of resilience. Durable goods orders jumped 4.7% in June, up from a revised 2.0% in May. Orders for durables excluding transportation were also stronger than expected, rising 0.6% in the month compared to expectations for a milder 0.1% gain.

Pending home sales rose 0.3% in June snapping a three month run of declines. This compared to consensus expectations which centred on a 0.5% fall. The increase comes despite ongoing supply and financing challenges in the established dwelling market.

The Kansas City Fed manufacturing index firmed slightly in July but remains deeply negative. The index rose to -11 in July from -12 in June. The all-important new orders index was particularly weak, falling to -20 from -14 last month.

Today’s key data and events:

NZ ANZ Consumer Confidence Jul prev 85.5 (8am)
AU PPI Q2 prev 1.0% (11:30am)
AU Retail Sales Jun exp -0.2% prev 0.7% (11:30am)
EZ Consumer Confidence Jul Final (7pm)
EZ Economic Confidence Jul prev 95.3 (7pm)
UK Nationwide House Prices Jul (28 Jul – 4 Aug)
US Employ. Cost Index Q2 exp 1.1% prev 1.2% (10:30pm)
US Personal Income Jun exp 0.5% prev 0.4% (10:30pm)
US Personal Spending Jun exp 0.3% prev 0.0% (10:30pm)
US PCE Core Jun exp 0.2% prev 0.3% (10:30pm)
US UoM Consumer Sentiement Jul Final exp 72.6 (12am)

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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