Morning report

Wednesday, 13 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,207	0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,646	-0.1%	10 yr bond	4.16		0.00		90 day BBSW	4.12	0.00
Japan Nikkei	32,776	1.0%	3 yr bond	3.85		0.01		2 year bond	3.87	0.01
China Shanghai	3,289	-0.2%	3 mth bill rate	4.26		0.01		3 year bond	3.84	0.01
German DAX	15,716	-0.5%	SPI 200	7,190.0		-21		3 year swap	4.08	0.00
UK FTSE100	7,528	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.17	0.01
Commodities (close & change)*			TWI	60.4	-	-	60.4	**United States**		
CRB Index	287.4	1.0	AUD/USD	0.6432	0.6440	0.6408	0.6424	3-month T Bill	5.26	-0.01
Gold	1,913.67	-8.6	AUD/JPY	94.28	94.56	94.06	94.52	2 year bond	5.02	0.03
Copper	8,389.00	147.5	AUD/GBP	0.5141	0.5159	0.5128	0.5142	10 year bond	4.28	-0.01
Oil (WTI futures)	88.84	1.6	AUD/NZD	1.0864	1.0890	1.0858	1.0884	**Other (10 year yields)**		
Coal (thermal)	166.50	2.5	AUD/EUR	0.5983	0.6007	0.5970	0.5972	Germany	2.64	0.00
Coal (coking)	288.00	5.7	AUD/CNH	4.6975	4.7049	4.6869	4.6898	Japan	0.71	0.00
Iron Ore	117.90	-1.1	USD Index	104.56	104.92	104.46	104.57	UK	4.42	-0.06

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Investors remain in a holding pattern ahead of the US inflation report tonight. This will be the last piece of key economic data before the US Fed meets next week. The price of oil continues to increase adding to inflation concerns and the risk that rates remain higher for longer.

US equities closed lower, US treasuries were mixed, and the US dollar was broadly unchanged.

Share Markets: US equities finished lower. Energy equities were higher in early trade on the back of the higher oil price. However, the positive opening was reversed as tech stocks slid, with Oracle down 14% as its earnings fell short of analysts' expectations. The S&P 500 closed 0.6% lower, the NASDAQ ended 1.0% lower, while the Dow Jones finished 0.1% lower.

The ASX 200 rose 0.2% yesterday, led by materials stocks. Six of the eleven sectors finisher in the green. Futures are pointing to a negative open this morning.

Interest Rates: US treasuries were mixed as traders await key inflation data. The 2-year yield increased by 3 basis points to 5.02%. The 10-year yield declined by 1 basis point to 4.28%.

Interest rate markets have all but ruled out a hike at the Fed's meeting next week, attaching a 7% probability to a 25-baias point increase. Markets are pricing around a 50% chance of another hike from the Fed by the end of 2023. Rate cuts are fully priced for the middle of next year.

Aussie bond futures were broadly unchanged overnight. The 3-and-10-year futures yields closed at 3.85% and 4.16%, respectively.

Interest rate markets are pricing around a 25% chance of another hike from the Reserve Bank (RBA) this cycle. Futures imply a near 50/50 chance of a rate cut by the end of 2024.

Following the weaker than expected employment numbers in the UK, UK Gilt yields declined across the curve. The policy sensitive 2-year Gilt yield declined by 4 basis points to 5.0%. The 10- year Gilt yield declined by close to 6 basis points to 4.4%.

Foreign Exchange: The US dollar was broadly unchanged. The DXY traded within a narrow range, reaching a high of 104.92, before retracing slightly to close around 104.57.

The Aussie dollar was slightly lower, consolidating the gains we saw during the previous session. The pair remained above 0.6400, reaching a low of 0.6408 before retracing some of this fall to finish at 0.6424.

Commodities: Commodity prices were generally higher, except for gold. The price of oil reached a ten-month high, with OPEC forecasting a shortfall of 3.3 million barrels per day next quarter as Saudi Arabia extends its production cuts. The West Texas

Intermediate (WTI) futures price is currently at USD88.84.

Iron ore prices consolidated at above USD117 a tonne. The boost to prices was driven by better-than-expected credit data from China.

Australia: The Westpac-Melbourne Institute consumer sentiment index fell 1.6% in September to 79.7 index points. Confidence has now endured its longest spate of entrenched weakness since the early 1990's recession. This is despite the Reserve Bank's (RBA) third consecutive rate pause.

Households remain concerned by the corrosive impacts of inflation on household income and wealth. This was reflected in the family finances vs the previous 12-month sub-index, which fell to 61.5, its lowest level in over 30 years (since June 1992).

Growing expectations that the RBA is finished with rate hikes did improve the mood among mortgage holders (+7.8%). However, this was more than offset by a deterioration in confidence among renters (-6.1%) as the rental crisis deepens. Sentiment also weakened among outright homeowners (-5.8%).

Interest rate optimism also spurred expectations of house price growth. The house price expectations index rose 2.2% to 154.6 index points, a new cyclical high and just 5.5% shy of the 2021 peak. This raises concern that any future rate cuts may do more to boost house prices than support real economic activity.

The National Accounts revealed that we have likely moved passed the peak pressure on real (or inflation adjusted) household disposable incomes. This may support sentiment moving forward; however, any tailwind is likely to be at least partly offset by the slowing job market.

We are therefore unlikely to see a material lift in confidence until the headwinds from inflation and interest rates meaningfully retreat.

Business conditions rose 3 index points to +13 in August, the strongest reading in four months. Resilient conditions have been a feature of this cycle despite consumer confidence having been deeply pessimistic for over 12-months.

The bounce in conditions in August was underpinned by an improvement in all three sub-indices – trading (+18), profitability (+13) and employment (+9).

Resilient conditions saw a marginal improvement in business confidence in August. The confidence index rose 1 index point to +2. The mood among businesses has now improved for three consecutive months but remains weak by historical standards.

After a concerning spike in July, cost pressures moderated in August. Growth in input costs ticked up, while labour cost growth slowed, confirming that the pass through of the minimum wage increase drove the jump in July. Despite higher costs, growth in sale prices eased, with retail prices pulling back by almost 1 percentage point – the sharpest fall since April 2022. On face value, it seems firms are having more difficulty passing on higher costs to consumers.

A step up in capacity utilisation to its highest level since March (85.1%), points to ongoing constraints on production, notwithstanding a recent moderation in demand. This is likely to continue to support business investment and credit growth, but also adds to inflation risks.

Looking ahead, a stabilisation in forward orders over recent months suggests that while growth is slowing, the softening in demand is likely to remain orderly. The resilience in conditions is reflective of this and suggests that the RBA's goal of achieving a soft economic landing remains intact.

New Zealand: Net migration rose to a record high of 96,200 in the year to July 2023. The is a big turnaround from the year to July 2022, when there was a net outflow of 14,500 people. The record net migration gain equates to a gain of about 19 people per 1,000 population.

Retail card spending increased 0.7% over the month of August. This was a sharp increase from the flat outcome recorded in July. The increase was driven by a rebound in purchases of fuel, apparel, and motor vehicles. On an annual basis, retail card spending rose by 3.7% in August, following a 2.2%% rise in July.

Eurozone: The ZEW Indicator of Economic Sentiment decreased to -8.9 index points in September, from -5.5 points in August. Around 59% of surveyed analysts expected no change in economic activity, 25% expected a deterioration and 16% predicted an improvement in economic activity.

United Kingdom: The unemployment rate ticked up to 4.3% over the three months to July, from the 4.2% rate seen over the quarter to June. The outcome was in line with market expectations.

There were 207k job losses over the quarter to July, up from the 66k job losses over the three months to June. This was higher than the 195k losses expected by the market.

Notwithstanding the easing in labour market conditions, average earnings increased by 8.5% over the year to July, up from the 8.2% recorded over the year to the June quarter. This was higher than the 8.2% the market was expecting. Excluding bonuses, average earning increased by a still high 7.8% in July, in line with the growth recorded in June and expected by the market.

United States: The National Federation of Independent Business (NFIB) Small Business Optimism Index declined to 91.3 index points in August, from 91.9 points in July. Around one quarter of business owners reported that inflation was their most significant headwind. Also, the number of business owners expecting better business conditions over the next six months declined.

Today's key data and events:

EZ Industrial Production Jul prev 0.5% (7pm)

UK Industrial Production Jul prev 1.8% (4pm)

US CPI Aug (10:30pm)

m/m exp 0.6% prev 0.2%

y/y prev 3.2%

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.

Pat Bustamante, Economist
Ph: +61 468 571 786

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
+61 401 102 789