

Friday, 14 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,247	1.6%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>			
US Dow Jones	34,395	0.1%	10 yr bond		3.98	-0.06		90 day BBSW	4.29	-0.01	
Japan Nikkei	32,419	1.5%	3 yr bond		3.87	-0.08		2 year bond	4.02	-0.11	
China Shanghai	3,393	1.3%	3 mth bill rate		4.40	-0.01		3 year bond	3.96	-0.10	
German DAX	16,141	0.7%	SPI 200		7,243.0	39		3 year swap	4.18	-0.07	
UK FTSE100	7,440	0.3%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	4.05	-0.08
Commodities (close & change)*			TWI		61.7	-	-	61.7	<b>United States</b>		
CRB Index	270.7	2.4	AUD/USD		0.6788	0.6895	0.6785	0.6886	3-month T Bill	5.23	0.00
Gold	1,960.51	3.2	AUD/JPY		93.97	95.31	93.86	95.04	2 year bond	4.63	-0.12
Copper	8,494.75	182.3	AUD/GBP		0.5226	0.5259	0.5223	0.5244	10 year bond	3.76	-0.09
Oil (WTI futures)	76.89	1.1	AUD/NZD		1.0791	1.0841	1.0754	1.0777	<b>Other (10 year yields)</b>		
Coal (thermal)	128.25	-1.0	AUD/EUR		0.6100	0.6160	0.6093	0.6135	Germany	2.49	-0.09
Coal (coking)	231.50	5.5	AUD/CNH		4.8652	4.9356	4.8631	4.9246	Japan	0.48	0.00
Iron Ore	111.95	2.0	USD Index		100.52	100.61	99.74	99.76	UK	4.42	-0.09

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 on tone in overnight trade, following the softer than expected US producer price index (or wholesale price index). This will feed into consumer prices that are targeted by central banks, with a lag of one or two quarters, pointing to further disinflation in the months ahead. Easing price pressures will reduce the need for further interest rate hikes. Markets have started to price in the idea of a soft landing, that is inflation falling back to target without a significant increase in the unemployment rate. On the back of this, US equities jumped, while the US dollar and US government bond yields declined.

**Share Markets:** US equity indices ended higher and recorded their fourth consecutive day of increases. The S&P 500 rose 0.9%, closing above the 4,500 mark for the first time since April 2022. The Nasdaq increased by 1.6% to reach a fresh high for the 2023 calendar year. The Dow added 0.1%.

The ASX 200 rose for the third consecutive day, closing 1.6% higher yesterday. Materials stocks led the market higher, with all eleven sectors making gains.

**Interest Rates:** US bond yields dropped sharply for a second day following the softer than expected US producer price index read. The US 2-year yield lost 12 basis points to 4.63%. The 10-year declined by 9 basis points to 3.76%.

Interest-rate markets continued to pare back the chance of further tightening from the Fed. Markets are now pricing one more hike with almost no chance of another hike before the end of the year.

Consistent with the movements in the US, the Australian 3-year bond (futures) yield declined by 8 basis points to 3.87%. The 10-year (futures) yield declined by 6 basis points to 3.98%.

Interest rate markets are pricing a 30% chance of a 25-basis point hike when the Reserve Bank meets in August. Markets are pricing a peak rate of around 4.39% by December 2023 – that is one more hike, with a small chance of another.

**Foreign Exchange:** The US dollar index (DXY) continued its slide, falling for the fourth consecutive day. The US dollar index reached a low of 99.76, its lowest level since April 2022, and is currently trading around this level.

The Aussie extended recent gains, reaching a high of 0.6895, its highest level since February 2023, during the London session. Offshore funds continued to buy spot and government bonds, supporting the Aussie. The AUD/USD pair is currently trading at 0.6886.

**Commodities:** Commodities generally finished higher, except for thermal coal, which was slightly down. The West Texas Intermediate (WTI) future remains below US\$80 per barrel (US\$76.89).

**Australia:** There were no significant data releases yesterday.

**New Zealand:** Electronic card transactions increased by 1.0% over the month of June, after declining by 1.7% over the month of May. Spending rose across all retail industries.

The BusinessNZ Performance of Manufacturing Index declined to 47.5 points in June, down from the 48.9 points recorded in May and still well below the long run average of 53.0 points. The outcome was driven by declining demand, cost increases and ongoing production/staffing issues.

**Eurozone:** Industrial production increased by 0.2% over the month of May, lower than the 1.0% increase recorded over March. This was softer than the 0.3% the market was expecting. However, on an annual basis, industrial production declined by a sharp 2.2% over the year to May, after a 0.2% increase in April.

**United Kingdom:** Industrial production declined by 0.6% over the month of May, following a 0.2% decline over April. The outcome was worse than the fall of 0.4% expected by the market. The monthly decline resulted from a decline in three of the four production sectors, including electricity and gas, water supply and sewerage, and manufacturing. Industrial production was 0.2% below its pre pandemic level.

**United States:** The producer price index (PPI), which measures the change in wholesale prices, increased by 0.1% over the month of June, following a fall of 0.4% in May. This was weaker than the 0.1% the market was expecting. The PPI was 0.1% higher than a year ago - the smallest annual increase since August 2020. The monthly increase was driven by a 0.2% increase in the prices of services, with the prices of goods remaining unchanged following a 1.6% decline over the month of May. The PPI feeds into consumer prices, which are targeted by central banks, usually with a lag of one to two quarters. Today's outcome shows that prices pressures are easing.

Initial jobless claims for the week ended 8 July declined by around 12k to 237k. This was better than the 250k the market was expecting. Continuing claims increased by 11k to 1,729k for the week ended 1 July.

Mary Daly, President of the Federal Reserve Bank of San Francisco, urge caution, telling CNBC in an interview overnight that it's "too early to say that we've declared victory on inflation."

#### Today's key data and events:

EZ Trade Balance May prev -€7.1bn (7pm)

JN Industrial Production May Final prev -1.6% (2:30pm)

US Import Price Index Jun exp -0.4% prev -0.6% (10:30pm)

US Export Price Index Jun exp 0.0% prev -1.9% (10:30pm)

US UoM Consumer Sentiment Jul Prel. (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.

**Pat Bustamante, Senior 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

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