Morning report

Friday, 21 July 2023

Equities (close & % change)		
S&P/ASX 200	7,325	0.0%
US Dow Jones	35,225	0.5%
Japan Nikkei	32,491	-1.2%
China Shanghai	3,323	-0.9%
German DAX	16,204	0.6%
UK FTSE100	7,646	0.8%
Commodities (close & change)*		
CRB Index	274.7	1.6
Gold	1,969.53	-7.1
Copper	8,481.25	57.0
Oil (WTI futures)	75.65	0.4
Coal (thermal)	141.95	1.8
Coal (coking)	236.00	1.7
Iron Ore	113.90	-0.8

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	4.02	0.08
3 yr bond	3.97	0.07
3 mth bill rate	4.47	0.01
SPI 200	7,282.0	6

FX Last 24 hrs	Open	High	Low	Current
TWI	62.1	-	-	62.1
AUD/USD	0.6773	0.6847	0.6765	0.6781
AUD/JPY	94.57	95.43	94.44	94.98
AUD/GBP	0.5235	0.5305	0.5231	0.5269
AUD/NZD	1.0814	1.0901	1.0805	1.0882
AUD/EUR	0.6047	0.6104	0.6040	0.6092
AUD/CNH	4.8984	4.9133	4.8628	4.8654
USD Index	100.26	100.97	100.02	100.82

Interest rates (close & change)		
Australia		
90 day BBSW	4.30	0.01
2 year bond	3.97	0.12
3 year bond	3.91	0.12
3 year swap	4.31	0.11
10 year bond	3.95	0.08
United States		
3-month T Bill	5.25	-0.01
2 year bond	4.84	0.07
10 year bond	3.85	0.10
Other (10 year yields)		
Germany	2.49	0.05
Japan	0.47	0.00
UK	4.28	0.06

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Risk sentiment deteriorated overnight, weighed down by weak earnings results from major US tech companies. US equities were mixed, the dollar pushed higher, and treasury yields received a boost from some fresh signs of labour market resilience.

Share Markets: Tech earnings missed the mark, driving down the S&P 500 and the NASDAQ which closed down 0.7% and 2.1%, respectively. The Dow Jones bucked the trend, closing 0.5% higher.

The ASX 200 finished flat yesterday after being as much as 0.8% higher early in the session. Stronger-than-expected jobs data prompted the unwind as rate expectations were recalibrated.

Interest Rates: US treasury yields rose across the curve as weaker-than-expected jobless claims data revived concerns of labour market resilience. A more resilient labour market could entail additional policy tightening from the Fed. The 2-year yield gained 7 basis points to 4.84% after reaching as high as 4.88%. The 10-year yield rose 10 basis points to 3.85%, just shy of the intra-day high of 3.87%.

Interest rate markets are almost fully pricing a 25-basis point hike from the Fed next week. Markets are attaching around a 30% chance of another hike thereafter and are pricing in the risk of cuts from early next year.

Aussie bond futures took a lead from US treasuries. The 3-year government bond (futures) yield rose 7 basis points to 3.97%, while the 10-year (futures) yield gained 8 basis points to 4.02%.

Markets are pricing a 47% chance of a rate hike from the Reserve Bank (RBA) in August following a very strong jobs report. This is up from around a 30% chance at the start of the week. There will likely be more conviction on the call after next week's June quarter inflation data.

Foreign Exchange: The Aussie dollar leapt higher on the back of the domestic jobs data, trading from a low of 0.6765 to a high of 0.6847, testing resistance around 0.6850. The AUD/USD pair failed to hold onto gains, falling sharping during New York trade as a spike in treasury yields boosted the US dollar. The pair was trading around 0.6781 at the time of writing, around 10 pips north of yesterday's open.

The selloff in treasuries supported the US dollar. The DXY index rose from a low of 100.02 to a high of 100.97 and is currently trading around 100.82.

Commodities: Commodities were broadly higher overnight. The West Texas Intermediate (WTI) price of oil closed at US$75.65 per barrel.

Australia: Employment rose by 32.6k jobs in June, leaving the unemployment rate unchanged at 3.5% – near its lowest level in almost 50 years. The result all but confirms that the labour market remains unquestionably strong.

Over the past 12 months, the working-age population has surged a record 2.8% as migration has roared back to life. But so far, the labour market has comfortably absorbed this massive influx of supply without breaking a sweat.

Despite the surge in supply, demand still outweighs supply in the labour market, preventing the easing in conditions required to bring inflation back into line. This imbalance sits largely with the strength of labour demand.

The required loosening in labour market conditions is not likely to be achieved until demand is ratcheted back. Interest rate hikes from the RBA are targeted at addressing this surplus in demand.

However, the evidence suggests that progress has been slow. This partly reflects that monetary policy operates with a lag, but it is also an indicator of the scale of the imbalances caused by the pandemic. The pandemic 'overhang' has fostered resilience in the economy, supporting the need for more rate hikes to reign in the huge backlog of labour demand.

The persistent imbalance between labour demand and supply suggests we are likely to see ongoing resilience in employment, especially given the current robust growth in labour supply. Today's data adds weight to our view that further tightening in monetary policy is forthcoming.

Eurozone: Consumer confidence rose to -15.1 in July from -16.1 in June. Despite remaining deeply pessimistic, this was the strongest reading since February 2022. The improvement in sentiment was slightly stronger than anticipated.

United States: The Philadelphia Fed business outlook index edged up to -13.5 in July from -13.7 in June, missing consensus expectations which centred on a reading of -10. The forward orders sub-index, which is a leading indicator of activity, was particularly weak.

Existing homes sales fell 3.3% in June to 4.16m, the lowest volume of sales since January. Limited advertised supply in response to higher interest rates is supporting dwelling prices in the established market. Low volumes are likely to persist for some time alongside expectations that rates will be held higher for longer, giving households little incentive to transact.

The leading index fell 0.7% in June following an upwardly revised 0.6% fall in May. This marked the fifteenth consecutive fall in the indicator.

Initial jobless claims over the week ending July 15 came in at 228k, well below expectations for 240k and improving on the previous week's reading of 237k.

Today's key data and events:

UK GfK Consumer Sentiment Jul exp -25 prev -24 (9:01am)

JN CPI Jun y/y exp 3.2% prev 3.2% (9:30am)

UK Retail Sales Jun exp 0.2% prev 0.3% (4pm)

UK Public Sector Borrowing Jun exp £20.6bn prev £19.2bn (4pm)

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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