Morning report

Thursday, 29 June 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,197	1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,853	-0.2%	10 yr bond	3.84		-0.02		90 day BBSW	4.31	0.01
Japan Nikkei	33,194	2.0%	3 yr bond	3.79		-0.02		2 year bond	4.04	-0.06
China Shanghai	3,343	0.0%	3 mth bill rate	4.50		0.01		3 year bond	3.87	-0.06
German DAX	15,949	0.6%	SPI 200	7,148.0		-5		3 year swap	4.14	-0.06
UK FTSE100	7,500	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.87	-0.06
Commodities (close & change)*			TWI	62.1	-	-	62.1	**United States**		
CRB Index	259.2	-0.5	AUD/USD	0.6686	0.6689	0.6597	0.6601	3-month T Bill	5.17	0.02
Gold	1,907.32	-6.4	AUD/JPY	96.30	96.35	95.16	95.30	2 year bond	4.71	-0.05
Copper	8,372.00	-35.0	AUD/GBP	0.5244	0.5247	0.5198	0.5223	10 year bond	3.71	-0.06
Oil (WTI futures)	69.56	1.9	AUD/NZD	1.0844	1.0908	1.0799	1.0863	**Other (10 year yields)**		
Coal (thermal)	149.55	2.6	AUD/EUR	0.6100	0.6101	0.6042	0.6048	Germany	2.32	-0.04
Coal (coking)	230.50	0.8	AUD/CNH	4.8304	4.8312	4.7796	4.7825	Japan	0.39	0.02
Iron Ore	112.00	-1.4	USD Index	102.51	103.15	102.47	102.97	UK	4.32	-0.06

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: With little economic news being released, appearances from the heads of the world's key central banks at a central banking forum in Sintra, Portugal took centre stage. Key themes included the persistence of inflation, tight labour markets, resilient spending and growth, and decisions being data dependent.

Additionally, markets were impacted by month and quarter end rebalancing flows, as we approach the end of June. US share markets ended flat, bond yields declined, and the US dollar strengthened against major currencies.

Share Markets: Equity markets fluctuated as investors assessed comments from central bank officials while also managing portfolio positioning. The S&P 500 closed flat, the Nasdaq rose 0.3%, while the Dow Jones was down 0.2%.

The ASX 200 rose 1.1% yesterday, as all but one sector (utilities) recorded gains. Consumer discretionary and real estate (both 2.1%) recorded the strongest gains. This reflected a pulling back of expectations of future rate hikes following a weaker-than-expected outcome for the May monthly consumer price index (CPI) indicator. Financials, industrials, IT, energy, and communication services all also rose by more than 1%. Futures are pointing to a soft open this morning.

Interest Rates: Bond yields ended down after briefly spiking higher as central bank chiefs were speaking. The US 2-year bond yield slipped 5 basis points, to 4.71%, after briefly spiking to 4.78%. The 10-year yield was 6 basis points lower, at 3.71%. Interest-rate markets are pricing around a three in four chance of a hike from the Federal Reserve at its July meeting. Looking forward, markets have slightly more than one hike fully priced over coming months, before cuts begin to be priced from early 2024.

Australian government bond yields declined overnight, continuing the slide from yesterday following weaker-than-expected inflation data. The 3-year and 10-year Australian government bond yield (futures) both fell 2 basis points, to 3.79% and 3.84%, respectively. Interest-rate markets are pricing around a 17% chance of a hike at the RBA's July meeting. This is down from around 22% before the release of the May monthly inflation indicator. Markets now expect the cash rate to peak at around 4.45% in late 2023, down from around 4.52% before the inflation data.

Foreign Exchange: The US dollar strengthened against a basket of major currencies. The USD Index ranged between a low of 102.47 and a high of 103.15, before closing at 102.97.

The AUD/USD pair continued to trade lower following a sharp move down when the inflation data was published. After hitting an intra-day high of 0.6689 during the Asian session yesterday, the pair dropped sharply from 0.6666 to 0.6619 in the minutes following the CPI release. During the overnight session, it continued to trade lower, to a low of 0.6597 during the New York session. It was trading at 0.6601 during the time of writing.

Commodities: Oil prices rose above US$69 as data from the US Energy Information Administration (EIA) showed that oil stockpiles fell by 9.6 million barrels last week. This was the largest drop in two months and was larger than expected. The move comes as data indicated that demand for fuel in the US remains strong. Demand over the past four weeks rose to its highest level since December 2021.

Coal prices also rose, while gold, iron ore, and copper all declined.

Australia: The monthly consumer price index (CPI) indicator rose 5.6% over the year to May, down sharply from the 6.8% recorded in April. This was the slowest annual growth rate since April 2022. Part of the moderation was payback from last month when the halving of the fuel excise back in 2022 led to a jump in the annual CPI indicator.

When adjusting for volatile items and holiday travel, the seasonally adjusted indicator shows a 6.4% increase in annual terms, down from 6.5% recorded in April. This seasonally adjusted series rose by 0.5% over the month of May, a step up from the 0.2% recorded in April. It confirms that a substantial part of the moderation in headline inflation was driven by volatile items including fuel (-8.0% in annual terms) and holiday travel (+7.3% in annual terms, a moderation from the +11.9% recorded last month).

In an underlying sense, both housing (+8.4%) and food and non-alcoholic beverages (+7.9%) continue to be the largest contributors to inflation. Many of the services prices that drove inflation over the March quarter (medical and hospital services, education, financial services) were not updated for May. The price of insurance was updated and increased by a record 14.2%, reflecting higher premiums for house, home contents, and motor vehicle insurance.

Central Banking Forum: Several heads of major global central banks spoke at the ECB Forum on Central Banking in Sintra, Portugal. The highlight was a panel which featured the Federal Reserve's Jerome Powell, the European Central Bank's Christine Lagarde, the Bank of England's Andrew Bailey, and the Bank of Japan's Kazuo Ueda.

Powell signalled that another two hikes from the Fed may be on the horizon following the recent 'skip' at the June meeting. He noted that "although policy is restrictive, it may not be restrictive enough and it has not been restrictive enough for long enough." He didn't believe inflation would get back to the Fed's 2% target until 2025 and pushed back against thoughts that rate cuts are just around the corner.

Lagarde noted that the ECB still has a way to go and will hike in July if current trends continue.

Bailey emphasised that the BoE still has "a job to do" and that rates are likely to remain higher for longer than financial markets are currently expecting.

The Bank of Japan has been one of the only central banks to not hike rates this cycle. Indeed, it has maintained its extremely accommodative monetary policy settings. Ueda hinted that a normalisation of monetary policy settings may be on the horizon if it is confident that inflation will pick up. However, it currently expects inflationary pressures to dissipate towards the end of 2023.

Eurozone: The money supply expanded 1.4% over the year to May, this followed a 1.9% expansion over the year to April. The outcome was slightly below expectations of 1.5% growth.

Today's key data and events:

NZ ANZ Bus. Confidence Jun prev -31.1 (11am)

AU Retail Sales May exp -0.2% prev 0.0% (11:30am)

AU Job Vacancies May prev -1.5% (11:30am)

EZ Consumer Confidence Jun Final prev -16.1 (7pm)

EZ Economic Confidence Jun exp 95.8 prev 96.5 (7pm)

EZ Ger. CPI Jun Prel. Exp 0.2% prev -0.1% (10pm)

US GDP Q1 Annualised Est. 3 exp 1.4% prev 1.3% (10:30pm)

US PCE Core Q1 Est. 3 exp 5.0% prev 5.0% (10:30pm)

US Pending Home Sales May exp -0.5% prev 0.0% (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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