Morning Report

Wednesday, 13 December 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,235	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	36,559	0.4%	10 yr bond	4.29		-0.04		90 day BBSW	4.36	0.00
Japan Nikkei	32,844	0.2%	3 yr bond	3.93		-0.02		2 year bond	4.03	-0.01
China Shanghai	3,149	0.4%	3 mth bill rate	4.36		0.00		3 year bond	3.94	-0.01
German DAX	16,792	0.0%	SPI 200	7,248.0		0		3 year swap	4.09	-0.04
UK FTSE100	7,543	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.33	-0.01
Commodities (close & change)			TWI	61.0	-	-	61.0	**United States**		
CRB Index	258.1	-3.7	AUD/USD	0.6567	0.6612	0.6540	0.6559	3-month T Bill	5.23	0.01
Gold	1,980.15	-1.8	AUD/JPY	96.02	96.04	95.29	95.43	2 year bond	4.73	0.02
Copper	8,270.50	9.0	AUD/GBP	0.5230	0.5250	0.5217	0.5219	10 year bond	4.21	-0.03
Oil (WTI futures)	68.80	-2.5	AUD/NZD	1.0722	1.0732	1.0693	1.0698	**Other (10 year yields)**		
Coal (thermal)	143.75	-9.3	AUD/EUR	0.6101	0.6127	0.6071	0.6076	Germany	2.23	-0.04
Coal (coking)	334.00	-2.0	AUD/CNH	4.7248	4.7446	4.7059	4.7181	Japan	0.72	-0.04
Iron Ore	134.20	-1.9	USD Index	104.08	104.10	103.49	103.79	UK	3.97	-0.11

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: Markets remained cautious ahead of tonight's Fed policy meeting as an underwhelming US inflation report revealed inflation pressures remain sticky. US equities shrugged off an initial slide to finish in the green, treasuries were mixed, and the US dollar eased. Oil futures tumbled despite recently announced production cuts from OPEC+.

Share Markets: US equities shook off an initial sell-off in the wake of the US inflation report to finish in the green. The S&P 500 gained 0.4% to reach a fresh 2023 high and is now just 3.6% shy of 2021's all time high. The Dow Jones and the NASDAQ rose 0.4% and 0.7%, respectively. Both bourses also clocked calendar year highs.

The ASX 200 gained 0.5% yesterday, closing at its highest level in almost three months. Gains were led by healthcare and consumer staples. Futures are pointing to a positive open this morning.

Interest Rates: The US inflation report led traders to rethink bets for aggressive rate cuts as signs of sticky inflation reinforced Fed messaging that they are in no rush to claim victory and entertain rate cuts. Still, markets are pricing the first cut in May, but the amount of policy easing in 2024 has been pared slightly. Markets will be focused on messaging from Fed Chair Jerome Powell and are likely to be sensitive to any hawkish surprise.

The 2-year yield traded between a low of 4.63% and high of 4.74% but finished the session up 2 basis points at 4.73%. The 10-year yield ranged between a low of 4.14% and a high of 4.24%, finishing the session 3 basis points lower at 4.21%.

Moves in Aussie bond futures were limited. The 3-year (futures) yield fell 2 basis points to 3.93%, while the 10-year fell 4 basis points to 4.29%.

Interest rate markets have taken further tightening from the RBA off the table. Rate cuts are fully priced by November next year.

Foreign Exchange: The US dollar finished slightly lower after trading between a high of 104.10 and a low of 103.49. The DXY was trading around 103.79 at the time of writing.

The Aussie dollar underperformed but remained within in its recent range. The AUD/USD pair fell from a high of 0.6612 to a low of 0.6540 but has since made up some ground to trade around 0.6559.

Commodities: The West Texas Intermediate (WTI) price of oil plunged below US$69 a barrel, the lowest since late June. Crude has slid for seven straight weeks despite new output cuts from OPEC+ as supplies remain ample.

Australia: The Westpac-Melbourne Institute consumer confidence index rose 2.7% in December to a still very weak 82.1, continuing to oscillate around deeply negative levels. Sentiment has averaged 80.9 over the 2023 calendar year, the weakest result since the 1990s recession.

It's not hard to see why. Households are getting hit from all sides; high inflation, a rising tax take and higher interest rates are all squeezing household incomes. Last week's National Accounts revealed the full extent of this squeeze. Real household disposable income suffered the largest annual fall since the 1980s, dropping a whopping 4.3%.

Consumers are still vigilant to the risk of further rate hikes. Amongst those surveyed after the RBA's December pause, 60% still expect mortgage interest rates to move higher over 2024.

Consumers are unlikely to be as gloomy in 2024. Inflation will continue to subside, taking substantial pressure off real incomes. Optimism is also likely to build in anticipation of the Stage 3 tax cuts and as expectations for rate cuts build. However, this improvement is likely to come later in the year meaning 2024 will likely be a tale of two halves.

Business conditions fell 4 points to +9 index points in November, to be below its ten-year average for the first time on over two years. Business confidence fell 6 points to -9 index points, with large falls recorded in consumer facing industries like retail.

The trading (down 6 points to +13) and profitability (down 5 points to +6) measures softened further and are now below their 10-year averages. The employment sub index was unchanged at +8.

While conditions softened, growth in costs and prices accelerated. Higher costs flowed into higher prices, with output prices up 1.2% over the quarter, up from 1.0% last month.

Demand is slowing while the supply side of the economy is normalising. The National Accounts showed that productivity growth is stabilising as the capital stock begins to catch up to the growth in labour – this will help reduce costs. While the RBA should be alert, at this point it should not be alarmed, underlying forces are weighing on demand while boosting supply, which will help ensure inflationary pressures continue to ease.

The Government's Mid-Year Economic and Fiscal Outlook (MYEFO) will be released today. We maintain our call for the Government to record a second consecutive surplus in 2023-24. However, today's update is likely to remain conservative, showing improvement but not a surplus.

Data since the May Budget points to upside risks – commodity prices are tracking well above what was assumed, population growth has exceeded all expectations, the labour market remains resilient, and the 2022-23 final bottom line was five times better than expected. On the downside, the cost of capital is higher, but that's likely to bite in future years.

If the windfalls are temporary, should most of it be saved? We think so. This will help ensure monetary and fiscal policy are working in tandem and will put us in a stronger financial position to weather future challenges.

Eurozone: The ZEW economic growth expectations index rose to 23.0 in December, up from 13.8 in November. This was the strongest reading since February and the third consecutive monthly increase.

New Zealand: Net migration came in at 7.8k in October, down from an upwardly revised 10.0k increase in September. Over the year to September net migration clocked in at 118.8k, the fastest pace on record.

United States: The November inflation report continued to exhibit signs of stickiness, especially in the core services and housing components. The consumer price index (CPI) rose 0.1% in the month, accelerating from a flat reading in November. In annual terms headline CPI slowed to 3.1%, from 3.2% previously. The core measure, which excludes food and energy, accelerated in monthly terms rising 0.3% but was unchanged at 4.0% in annual terms. Core CPI has been running between 4% and 5% since June and has barely budged since August, confirming that the final mile is the hardest in the inflation fight.

Today's key data and events:

NZ Current Acc. Q3 exp -$11.0bn prev -$4.2bn (8:45am)
JN Tankan Large Mfg Index Q4 exp 10 prev 9 (10:50am)
EZ Industrial Production Oct exp -0.3% prev -1.1% (9pm)
US PPI Final Nov y/y exp 1.0% prev 1.3% (12:30am)
US FOMC Policy Decision (6am)
Federal Funds Rate exp 5.25%-5.50% prev 5.25%-5.50%

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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