

Morning Report

Monday, 15 May 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,257	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,301	0.0%	10 yr bond	3.40		0.07	90 day BBSW	3.89	0.01	
Japan Nikkei	29,388	0.9%	3 yr bond	3.07		0.07	2 year bond	3.17	-0.03	
China Shanghai	3,430	-1.1%	3 mth bill rate	3.93		0.03	3 year bond	3.02	-0.05	
German DAX	15,914	0.5%	SPI 200	7,274.0		7	3 year swap	3.45	0.08	
UK FTSE100	7,755	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.32	-0.07
Commodities (close & change)*			TWI	61.2	-	-	61.2	United States		
CRB Index	257.9	-0.1	AUD/USD	0.6703	0.6706	0.6636	0.6647	3-month T Bill	5.02	-0.01
Gold	2,010.78	-4.3	AUD/JPY	90.16	90.41	89.91	90.18	2 year bond	3.99	0.09
Copper	8,224.25	86.8	AUD/GBP	0.5357	0.5359	0.5326	0.5337	10 year bond	3.46	0.08
Oil (WTI futures)	70.04	-0.8	AUD/NZD	1.0640	1.0759	1.0638	1.0729	Other (10 year yields)		
Coal (thermal)	163.00	2.9	AUD/EUR	0.6139	0.6143	0.6115	0.6125	Germany	2.28	0.05
Coal (coking)	237.17	-2.3	AUD/CNH	4.6644	4.6665	4.6271	4.6333	Japan	0.39	-0.01
Iron Ore	102.10	2.6	USD Index	102.10	102.71	101.94	102.71	UK	3.78	0.07

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: The University of Michigan's consumer sentiment index showed a stronger than expected fall in sentiment but also showed a stronger than anticipated rise in inflation expectations. The 5-10-year measure of inflation expectations hit a 12-year high, driving US bond yields higher and share markets lower.

Share Markets: US share markets fell across the board as markets worried about the prospect of stagflation in the US. The S&P 500 fell 0.2% and the Nasdaq declined 0.4%. The Dow finished little changed.

Interest Rates: US bond yields rose across the curve. The 2-year yield rose 9 basis points and the 10-year finished 8 basis points firmer. Markets are attaching just a 13% probability of a rate hike from the Fed at their next meeting and are almost fully priced for rate cuts to commence before the end of this year. Markets also place a low chance of the RBA hiking again.

Foreign Exchange: The AUD/USD on Friday night traded within a narrow range of 0.6636-0.6705. It is currently trading near the bottom of this range. This is a range that remains within the broader consolidation trading range it has been in for more than two months.

Last week on Wednesday, the AUD/USD tested the top end of the consolidation trading band at 0.6818, but prices failed to sustain there and turned back

down again.

The consolidation has tested and failed to break both sides of the range over the last fortnight, trading down at 0.6574 on April 28 and then rallying to fail at the top end again at 0.6818 on May 10.

Testing and failing both sides of the range in a short period suggests to us that the consolidation phase has further to run before the possibility of a decisive break emerges.

What might be the first signs that a break is imminent? Technically, it could be a close below 0.6577 or a close above 0.6785. These have been the highest and lowest closes over the consolidation period.

Commodities: Oil closed lower on Friday. It also closed lower for the fourth straight week. However, there are factors that should help oil find support at around US\$70 a barrel.

United Kingdom: GDP edged up just 0.1% in the March quarter. The expansion followed a 0.1% growth rate in the previous quarter and came despite previous predictions of recession. The Bank of England (BoE) said on Thursday it expected the economy to stagnate in both the first and second quarters with growth accelerating in the rest of the year. By contrast, in February the BoE had forecast a recession lasting throughout 2023 and into the first quarter of next year. The central bank no

longer expects such a long contraction thanks to lower energy prices, stronger global growth and more robust consumer and corporate confidence.

In the year to the March quarter, GDP growth was 0.2% firmer. GDP in the UK has still not recovered to pre pandemic levels.

United States: The University of Michigan's consumer sentiment survey fuelled concerns over lower growth and higher inflation. The main index fell from 63.5 in April to 57.7 in May. It was below consensus expectations for a result of 63.0. Both the current and expectations indexes fell.

Inflation expectations were higher than expected. The 1-year ahead measure rose to 4.5%, from 4.6% previously and versus expectations for 4.4%. The 5-10 year ahead measure rose to 3.2%, from 3.0% and versus expectations of 2.9%. The outcome was also the highest in 12 years.

US President Joe Biden said talks to avert a debt default are moving along. Director of the National Economic Council of the US Lael Brainard called the tone "serious" and "constructive." The US Treasury has just \$88 billion of leeway left on May 10, down from about \$110 billion a week earlier. US Federal Treasury Secretary Janet Yellen will update Congress within two weeks.

Today's key data and events:

NZ Performance Services Index Apr prev 54.4 (8:30am)
EZ Industrial Production Mar exp -2.7% prev 1.5% (7pm)
US Empire Mfg Index May exp -4.0 prev 10.8 (10:30pm)
US Net Long Term TIC Flows Mar prev \$71.0bn (6am)

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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