Morning Report

Friday, 25 August 2023

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,182	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,099	-1.1%	10 yr bond	4.14		0.03		90 day BBSW	4.14	-0.01
Japan Nikkei	32,287	0.9%	3 yr bond	3.84		0.03		2 year bond	3.83	-0.05
China Shanghai	3,231	0.1%	3 mth bill rate	4.16		0.01		3 year bond	3.81	-0.06
German DAX	15,621	-0.7%	SPI 200	7,039.0		-91		3 year swap	4.10	0.01
UK FTSE100	7,334	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.12	-0.08
Commodities (close & change)*			TWI	60.3	-	-	60.3	**United States**		
CRB Index	275.8	0.9	AUD/USD	0.6479	0.6488	0.6413	0.6419	3-month T Bill	5.30	0.01
Gold	1,916.91	1.4	AUD/JPY	93.83	94.18	93.51	93.59	2 year bond	5.02	0.06
Copper	8,457.25	93.5	AUD/GBP	0.5094	0.5100	0.5082	0.5092	10 year bond	4.24	0.05
Oil (WTI futures)	79.05	0.2	AUD/NZD	1.0843	1.0862	1.0826	1.0832	**Other (10 year yields)**		
Coal (thermal)	158.00	-3.3	AUD/EUR	0.5965	0.5968	0.5933	0.5935	Germany	2.51	0.00
Coal (coking)	256.25	-1.3	AUD/CNH	4.7219	4.7246	4.6693	4.6731	Japan	0.66	-0.02
Iron Ore	112.25	0.3	USD Index	103.36	104.03	103.27	103.97	UK	4.43	-0.04

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: Bond yields rose and equity markets closed lower as investors remained on the edge of their seats waiting for a speech from Fed Chair Powell at the Jackson Hole Symposium on Friday. Investors also looked to comments from other Fed members for any hints on what issues may be front of mind for central bankers. The US dollar rose against a basket of major currencies in line with higher bond yields, while the Aussie pulled back from its highest levels in a little over a week amid a stronger USD.

Share Markets: Equity markets ended lower, led by falling valuations for big tech stocks, as traders await comments from Fed Chair Powell. The S&P 500 ended the session 1.3% lower, the Nasdaq lost 1.9% and the Dow Jones finished 1.1% down.

The ASX 200 gained 0.5% yesterday. Eight of 11 sectors closed higher, led a 4.2% surge in IT and a 1.0% gain in financials. Consumer staples and utilities brought up the rear, both losing over 1%. Futures are pointing to a weaker open today, following the lead from US markets.

Interest Rates: Interest rates rose across the curve ahead of the Jackson Hole Symposium. The US 2-year treasury yield ended 6 basis points higher, at 5.02%. The 10-year yield was 5 basis points higher, at 4.24%. Interest-rate markets are pricing a slightly higher than 50% chance of one more hike from the Fed this cycle. This is up from a slightly more than 40% chance a few days ago. Aggressive cuts are still priced for 2024, with almost four full cuts priced by the end of the year.

Australian government bond yields broadly mimicked those in the US. The 3-year and 10-year Australian government bond yield (futures) both gained 3 basis points, to 3.84% and 4.14%, respectively. Interest-rate markets continue to price a pause from the RBA in September. There is a slightly less than 40% chance of one more hike by early 2024, down from an almost 50% chance a few days ago.

Foreign Exchange: The US dollar gained ground against major currencies in line with rising bond yields. The USD Index rose from a low of 103.27 to a high of 104.03. It was trading at 103.97 at the time of writing. The AUD/USD pair weakened in line with a stronger US dollar and fell from a slightly more than one-week high of 0.6488. The pair traded down from that high to a low 0.6413 during the London and New York sessions and was trading at 0.6419 at the time of writing.

Commodities: Oil prices ended little changed at below US$80 per barrel. Copper, gold and iron ore ended the session higher, while coal prices softened.

Australia: The 2023 Intergenerational Report (IGR) was published yesterday. The report outlines what the Australian economy and budget bottom line is likely to look like in 40 years' time, should economic policy, regulation, and institutional arrangements remain broadly unchanged.

The theme in the 2023 IGR remains consistent with previous IGRs – Australia's population is expected to age, this will lead to a slowdown in population and economic growth and contribute to growing fiscal pressures.

There are various options which could ease long-term budget pressures, such as increasing migration or population growth so the dependency ratio (ratio of working-age people to over 65s) remains around current levels; cutting government spending; or increasing productivity. But these are not easy and have their own challenges.

Productivity is clearly part of the answer, if not the overarching answer. Like many other advanced economies, productivity has slowed in Australia and has been slowing for some time. Policies which drive productivity will put us in the best possible position to grow by working smarter not harder.

United States: Durable goods orders fell 5.2% in July, after a 4.4% gain in June. The reading was below expectations, which centred on a 4% fall. Excluding transportation orders, which can be volatile, orders rose 0.5% in July, above expectations and the June result, which were both a rise of 0.2%. Durable goods orders excluding defence and aircraft (often referred to as core orders and which provide a better proxy for business investment) rose 0.1% in the month, in line with expectations. This followed a 0.4% decline in June, which was revised lower from an initial reading of a 0.1% gain. The results paint a mixed picture as headline orders were dragged lower by weaker orders for new aircraft, while measures excluding the impacts of the airline industry suggested less weakness but were impacted by historical revisions. Looking through this volatility, the outcomes still suggest that a broad slowing in investment is underway as higher rates impact aggregate demand and firms' willingness to invest amid a more uncertain economic environment.

The Chicago Fed national activity index moved into positive territory in July, after recording negative prints in May and June. The index combines information from 85 economic indicators and provides a guide of whether growth may be above or below trend, with positive readings suggesting above-trend growth. The index rose to 0.12 in the month, from -0.33 in June. 45 indicators made positive contributions and the remaining 40 made negative contributions. Production-related indicators suggesting above-trend growth, while employment readings were slightly negative.

The Kansas City Fed manufacturing index printed a flat result of 0 in August. This was up from -11 in Jule and above expectations of -10. This was the first time the index has printed a non-negative result since March of this year. Despite the bounce, the index has still been at or below zero for 11 consecutive months. Looking at the sub-indices, prices paid and new orders rose, although new orders were still in negative territory. Production and shipments also rose from negative to positive territory, while the number of employees slipped.

Susan Collins and Patrick Harker from the Federal Reserve suggested that the Fed may be close to ending its rate-hiking cycle ahead of the Jackson Hole Symposium. However, Collins wouldn't rule out the possibility of additional hikes potentially still being necessary.

Today's key data and events:

CH Industrial Profits Jul y/y prev -8.3% (11:30am Sun 27 Aug)

EZ Ger. IFO Biz Climate Survey Aug exp 86.8 prev 87.3 (6pm)

US UoM Consumer Sentiment Aug Final exp 71.2 prev 71.2 (12am)

US Kansas City Fed Index Aug exp-10 prev -11 (1am)

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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