

Morning Report

Friday, 26 May 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,138	-1.0%			Last	Overnight Chg		Australia		
US Dow Jones	32,765	-0.1%	10 yr bond	3.77		0.06	90 day BBSW	3.93	0.01	
Japan Nikkei	30,801	0.4%	3 yr bond	3.48		0.07	2 year bond	3.58	0.08	
China Shanghai	3,356	-0.1%	3 mth bill rate	3.98		0.01	3 year bond	3.42	0.08	
German DAX	15,794	-0.3%	SPI 200	7,150.0		-6	3 year swap	3.85	0.02	
UK FTSE100	7,571	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.70	0.05
Commodities (close & change)*			TWI	60.4	-	-	60.4	United States		
CRB Index	258.5	-4.2	AUD/USD	0.6546	0.6546	0.6499	0.6507	3-month T Bill	5.14	-0.05
Gold	1,941.41	-15.8	AUD/JPY	91.22	91.26	90.76	91.14	2 year bond	4.53	0.16
Copper	7,943.75	68.0	AUD/GBP	0.5293	0.5295	0.5269	0.5281	10 year bond	3.82	0.08
Oil (WTI futures)	71.83	-2.5	AUD/NZD	1.0714	1.0756	1.0705	1.0730	Other (10 year yields)		
Coal (thermal)	140.50	-9.5	AUD/EUR	0.6088	0.6095	0.6062	0.6065	Germany	2.52	0.05
Coal (coking)	232.50	0.0	AUD/CNH	4.6236	4.6333	4.6066	4.6141	Japan	0.43	0.01
Iron Ore	95.10	-0.6	USD Index	103.85	104.31	103.84	104.22	UK	4.37	0.16

Data as at 8am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A revision higher in the US GDP deflator and ongoing strength in the US labour market pushed US bond yields higher. Negotiations are still ongoing around the US debt ceiling. The US dollar continued its rally, helping to push the AUD below US 65 cents for the first time in 6½ months.

Share Markets: US share markets jumped on a rally in companies linked to artificial intelligence, outweighing concerns of a potential default in the US. The Nasdaq spiked 1.7%, the S&P 500 rose 0.9%, but the narrower Dow dropped 0.1%.

The ASX 200 index yesterday closed 1.1% weaker.

Interest Rates: US bond yields spiked across the curve. The US 2-year yield closed 16 basis points higher and the US 10-year yield jumped 8 basis points higher. US bond yields rose on the back of the US GDP deflator and initial jobless claims – both adding to the possibility that the US Federal Reserve may need to hike again.

Markets are attaching a probability of 48% to another rate hike from the Fed next month and are nearly fully priced for a rate hike by July (probability of 94%).

The Australian 3-year government bond yield (futures) rose from 3.40% to 3.49% and the US 10-year yield lifted from 3.68% to 3.76%.

Markets are attaching little chance of a rate hike in June by the Reserve Bank (RBA). But they have a

60% probability attached to another rate hike occurring by September.

Foreign Exchange: The US dollar climbed against every G-10 counterpart. The appreciation of the USD was particularly significant against the JPY where USD/JPY rose to an overnight high of 140.23 – the highest rate in six months. EUR/USD fell to a two-month low of 1.0707.

The sell off in the AUD/USD continued and the AUD/USD notably fell under 0.6500 to make an overnight low of 0.6499 – the weakest level in 6½ months. AUD/USD has lost a lot of ground in a short space of time after consolidating in a trading band for much of the past two months. Since hitting a recent high of 0.6747 on May 9, the AUD has lost 2.5 US cents.

The AUD/USD is still trading heavily from a technical analysis point of view. From a fundamental point of view, there is potential for further upside for the USD if negotiations result in a lifting of the debt ceiling. So, we see potential for AUD/USD to retest under 0.6500 in the near term and possibly fall to as low as 0.6420 where there is support. A break under 0.6420 would see the AUD/USD revisit November 2022's low of 0.6387.

Weaker commodity prices are also weighing on the AUD, as investors fret about the Chinese economic rebound.

Commodities: The futures price of West Texas Intermediate oil dropped 3.4% overnight. Gold prices also retreated.

Australia: There was no major economic data published overnight.

Eurozone: European Central Bank's Villeroy suggested overnight the European Central Bank could tighten at their next three meetings.

United States: The second estimate of GDP for the first quarter was revised up to an annualised pace of 1.3%, from the first estimate of 1.1%. Firmer consumer spending led to the revision higher.

The core GDP personal consumption expenditure (PCE) deflator was increased to 5.0% per annum, from the initial reading of 4.9%, indicating inflationary pressures were stronger than previously reported.

Initial jobless claims again showed the labour market remains tight. Claims in the latest week – week ending May 20 – came in well under consensus expectations at 225k. The previous week was also revised a lot lower, from 242k to 225k.

Pending home sales stagnated in April as high mortgage rates paired with limited inventory continued to curb buyer demand. The National Association of Realtors' index of contract signings to purchase previously owned homes held steady at 78.9 last month.

The Chicago Fed national activity survey rose to +0.07 in April, from -0.37 previously. Meanwhile, the Kansas Fed activity survey fell to -1 in May, from -10 in April.

On the debt ceiling issue, Republicans said differences with the White House are narrowing and US President Joe Biden expressed optimism, but there's still no deal. The US Treasury's cash balance fell to just \$49.5 billion on Wednesday, down from \$76.5 billion a day earlier. It is the lowest balance since 2021.

The Fed's Susan Collins said the Fed may have reached or be approaching the point at which it can pause rate increases, citing "some promising signs of moderation" in prices.

Today's key data and events:

NZ Consumer Confidence May prev 79.3 (8am)
 AU Retail Sales Apr exp -0.2% prev 0.4% (11:30am)
 UK Retail Sales Apr exp 0.3% prev -0.9% (4pm)
 US Personal Income Apr exp 0.4% prev 0.3% (10:30pm)
 US Personal Spending Apr exp 0.5% prev 0.0% (10:30pm)
 US Core PCE Deflator Apr (10:30pm)
 m/m exp 0.3% prev 0.3%
 y/y exp 4.6% prev 4.6%
 US Dur. Goods Orders Apr exp -1.0% prev 3.2% (10:30pm)
 US UoM Cons. Sent. May Prel. Exp 58.0 prev 57.7 (12am)
 US Kansas City Fed Services Index May prev 7 (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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