

# Morning Report

Thursday, 13 July 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,136	0.4%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,347	0.3%	10 yr bond	4.04				90 day BBSW	4.31	0.00
Japan Nikkei	31,944	-0.8%	3 yr bond	3.94				2 year bond	4.13	-0.05
China Shanghai	3,351	-0.8%	3 mth bill rate	4.42				3 year bond	4.07	-0.05
German DAX	16,023	1.5%	SPI 200	7,158.0			62	3 year swap	4.24	-0.01
UK FTSE100	7,416	1.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.13	-0.06
<b>Commodities (close &amp; change)*</b>			TWI	61.6	-	-	61.6	<b>United States</b>		
CRB Index	268.3	0.7	AUD/USD	0.6686	0.6796	0.6683	0.6788	3-month T Bill	5.22	-0.02
Gold	1,957.35	25.1	AUD/JPY	93.84	94.22	93.27	93.97	2 year bond	4.75	-0.13
Copper	8,494.75	182.3	AUD/GBP	0.5171	0.5231	0.5165	0.5226	10 year bond	3.86	-0.11
Oil (WTI futures)	75.84	0.1	AUD/NZD	1.0793	1.0832	1.0769	1.0791	<b>Other (10 year yields)</b>		
Coal (thermal)	132.70	-7.1	AUD/EUR	0.6075	0.6113	0.6061	0.6099	Germany	2.58	-0.07
Coal (coking)	226.00	1.0	AUD/CNH	4.8231	4.8704	4.8084	4.8645	Japan	0.47	0.02
Iron Ore	110.25	1.3	USD Index	101.59	101.61	100.51	100.55	UK	4.51	-0.15

Data as at 8:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** Weaker-than-expected US inflation data led to a reduction in the odds of further tightening from the Federal Reserve, which led to gains in bond prices and US share markets and a sell off in the US dollar.

**Share Markets:** US share markets bounced on the weaker-than-expected US inflation data. The S&P 500 rose 0.7%, closing at its highest level since April 2022. The Dow added 0.3% and the Nasdaq increased 1.2%.

**Interest Rates:** US bond yields dropped sharply after the softer US inflation data. The US 2-year yield lost 13 basis points and the 10-year declined 11 basis points. Interest-rate markets pared back the chance of further tightening from the Fed.

**Foreign Exchange:** The US dollar index (DXY) tumbled on the softer-than-expected US inflation reading, reaching a low of 100.51 - its lowest level since April 2022. The DXY has struggled to retrace the sharp fall and is currently trading around its intra-day low at 100.52.

The CHF outperformed, surging to its strongest level against the US dollar since January 2015. Several other major currencies hit multi-month highs against the greenback also. The EUR jumped to a 16-month high of 1.1140, the GBP hit a 15-month high of 1.3000 and the NZD dollar hit a 2-month high of 0.6309.

The Aussie dollar also gained ground on the back of the weaker greenback. The AUD/USD pair leapt from a low of 0.6682 to a 3-week high of 0.6796 and is currently trading around 0.6790. The Aussie dollar was mixed on the crosses, appreciating against the GBP and the EUR, but failing to hold onto gains against the NZD.

**Commodities:** The price of oil in Brent closed above US\$80 a barrel for the first time since April amid signs of a tightening market. Prices held gains even as the US Energy Information Administration (EIA) data showed US crude stockpiles jumped by nearly 6 million barrels last week. Traders are viewing this more as inventories rising to meet growing demand rather than a glut.

**Australia:** There is speculation the new Governor will be announced tomorrow.

Reserve Bank (RBA) Governor Philip Lowe yesterday in a speech announced big changes to the RBA board in response to the recent review of the central bank. The RBA Board will meet 8 times a year, cutting back from 11. The RBA governor will hold a press conference after each board meeting. The monetary policy framework will be reviewed every five years. Dr Lowe also said from 2024, the RBA board will only meet eight times a year, rather than 11 as is currently the case, but each meeting will go for longer. He said the RBA governor will

hold a press conference after every board meeting to explain the board's interest rate decision. The RBA board will oversee the bank's research agenda as it related to monetary policy. The board will also work with Treasury to undertake five-yearly open and transparent reviews of Australia's monetary policy framework, to ensure that the framework keeps adapting to changes in the global economy.

**Canada:** The Bank of Canada (BoC) raised rates by 25 basis points for a second straight meeting and kept the door open for more hikes. Governor Tiff Macklem said officials debated holding but decided "the cost of delaying action was larger than the benefit of waiting."

**New Zealand:** The Reserve Bank of New Zealand board members decided to maintain the official cash rate (OCR) at 5.50% at its July monetary policy meeting, meet market expectations.

**United States:** US inflation slid to the lowest in more than two years in June, signalling a potential turning point for the Federal Reserve. Headline CPI eased to 3.0% year on year — one-third of where it was a year ago — from 4.0%, while core prices decelerated to 4.8% from 5.3%. Both measures climbed 0.2% from May, below consensus forecasts. The Federal Reserve's Beige Book showed the US economy recorded an overall increase in activity since late May, amid signs of slowing. Employment increased modestly, with firms still finding it difficult to hire workers.

Remarks from Fed officials overnight suggested they'll resume tightening this month despite the inflation report. Thomas Barkin said "if you back off too soon, inflation comes back strong." Neel Kashkari warned that banks must be prepared for higher rates.

Lael Brainard, US President's top economic adviser, said inflation is trending lower and downplayed chances of a US recession.

**Today's key data and events:**

NZ Card Spending Jun prev -1.9% (8:45am)

EZ Industrial Production May exp 0.3% prev 1.0% (7pm)

UK Industrial Production May exp -0.4% prev 0.3% (4pm)

US Initial Jobless Claims Jul 8 exp 250k prev 248k (10:30pm)

US Producer Price Index Jun exp 0.2% prev -0.3% (10:30pm)

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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