Morning Report

Thursday, 28 September 2023

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,030	-0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,550	-0.2%	10 yr bond	4.49		0.09		90 day BBSW	4.14	0.00
Japan Nikkei	32,372	0.2%	3 yr bond	4.10		0.06		2 year bond	4.05	-0.03
China Shanghai	3,258	0.2%	3 mth bill rate	4.32		0.03		3 year bond	4.04	-0.02
German DAX	15,217	-0.3%	SPI 200	7,055.0		-13		3 year swap	4.27	0.00
UK FTSE100	7,593	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.38	-0.02
Commodities (close & change)*			TWI	60.7	-	-	60.7	**United States**		
CRB Index	287.5	2.7	AUD/USD	0.6398	0.6409	0.6332	0.6352	3-month T Bill	5.32	0.00
Gold	1,875.12	-25.5	AUD/JPY	95.33	95.46	94.72	94.95	2 year bond	5.14	0.01
Copper	8,088.00	21.8	AUD/GBP	0.5263	0.5273	0.5227	0.5234	10 year bond	4.61	0.07
Oil (WTI futures)	93.68	3.3	AUD/NZD	1.0762	1.0772	1.0714	1.0727	**Other (10 year yields)**		
Coal (thermal)	161.50	-1.5	AUD/EUR	0.6052	0.6071	0.6032	0.6046	Germany	2.84	0.04
Coal (coking)	303.50	1.5	AUD/CNH	4.6790	4.6840	4.6374	4.6522	Japan	0.74	0.00
Iron Ore	116.00	-0.5	USD Index	106.22	106.84	106.17	106.66	UK	4.36	0.03

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: The Selloff in US treasuries grinded on, pushing the 10-year yield to a fresh 16-year high. US equities resisted the headwind from higher real rates, finishing little changed while the US dollar continued its ascent, reaching a new 10-month high. The price of oil surged to its highest level in over a year on news that inventories at a key oil hub in Cushing Oklahoma were drained to near their operational minimum last week.

Share Markets: US equities rebounded from an early sell-off to finish little changed. The S&P 500 closed flat. The Dow Jones eased 0.2%, while the NASDAQ was 0.2% higher.

The ASX 200 finished 0.1% lower yesterday. The local bourse unwound early losses after the monthly inflation indicator printed much as expected, boosting sentiment.

Interest Rates: The sell off in US treasuries continued overnight pushing yields up across the curve. The yield curve bear steepened as longer-dated yields rose faster than the short-end. The inversion in the 2-10-year portion of the curve is now its narrowest since May at -53.2 basis points.

The 2-year treasury yield rose 1 basis point to 5.14%. The 10-year yield surged to a fresh 16-year high of 4.64%, before pulling back slightly to close 7 basis points higher at 4.61%.

Interest rate markets are now pricing just over a 50% chance of another Fed hike by January 2024. A rate cut is not fully priced until September 2024.

Aussie bond futures followed the lead from the US. The 3-year (futures) yield rose 6 basis points to 4.10%, while the 10-year (futures) yield jumped 9 basis points to 4.49%.

Cash rate futures imply around a 90% chance of another rate hike from the Reserve Bank (RBA) by March next year. Cuts are not yet fully priced for 2024.

Foreign Exchange: The US dollar continued to rally on the back of higher long-end US bond yields. The DXY rose from a low of 106.17 to a fresh 10-month high of 106.84. It has since pulled back slightly to trade around 106.66 at the time of writing.

We flagged in a research note yesterday that the Aussie dollar looked to be trading heavy in the 0.6350-0.6450 range. Sure enough, the stronger US dollar saw the AUD/USD pair break to the downside, notching up a fresh 2023 low at 0.6332 – its weakest since November 2022. The pair has since retraced slightly to trade around 0.6352 at the time of writing. Domestic retail and job vacancy data will be key in this morning's trade.

Several major currencies slumped to multi-month lows against the US dollar. The British pound dropped to its lowest level since March at 1.2111, while the euro fell to 1.0488, its lowest level since

January. The Japanese Yen also weakened. The USD/JPY jumped to a high of 149.71, just shy of the 150 level which is perceived by the market as a potential trigger for market intervention from the Bank of Japan (BOJ).

Commodities: The West Texas Intermediate (WTI) oil future rocketed to its highest level in over a year before closing up 3.3% at US$93.68 per barrel. News that crude inventories at Cushing, Oklahoma, are running near minimum operational levels spurred the rally.

Australia: The monthly inflation indicator rose 5.2% over the year to August, up from 4.9% in July. As expected, the reacceleration in headline inflation was largely driven by a rise in petrol costs as the Aussie dollar remained under pressure and the price of oil firmed.

When excluding volatile items (like petrol) annual inflation slowed to 5.5% in August from 5.8% in July, illustrating that the disinflation impulse is still alive and kicking. However, disinflation remains concentrated in goods items. Services disinflation stalled - a positive given the backdrop of higher minimum and award wages, but further progress is required.

Disinflation might still be here, but I wouldn't bet the house on it just yet. The momentum of inflation suggests it's too early to call victory. In 6-month annualised terms headline inflation accelerated in the month, while the core measure barely budged. This is a potential sign that inflation is becoming sticky.

All-in-all the inflation result will do little to sway the Reserve Bank (RBA) from its 'on-hold' stance at the October meeting. The disinflation pulse in goods remains intact and services inflation is at least not getting worse. There are some early signs of stickiness in some areas, but this will need to be confirmed by the official quarterly release next month.

China: Industrial profits rose 17.2% over the year to August, rebounding from a 6.7% annual fall in July. This was first annual increase in profits since June 2022 and the largest increase since late 2021.

The rise in profits suggests demand may be improving after the government ramped up measures in recent months to prop up the property market and spur consumer spending. The profit report also showed an improvement in output prices, partially soothing concerns that deflation will persist.

Eurozone: Money supply eased 1.3% over the year to August, outpacing expectations for a 1.0% fall. This was the largest annual contraction in M3 money supply since records began in 1971. This comes as little surprise given the rapid rise in interest rates but does underscore the magnitude of tightening in financial conditions currently underway.

United States: Minneapolis Fed chief, Neel Kashkari, said he is open to the possibility of more than one additional rate hike. Kashkari did underscore that the risk of a government shutdown and prolonged auto-worker strikes could present a downside risk to growth. However, these risks were perceived as balanced against chances that further tightening may be needed to contain inflation.

Durable goods orders rose 0.2% in August, rebounding from a 5.6% fall in July. Core capital goods orders, which excludes aircraft and defence orders and is used as a proxy for equipment investment, rose a solid 0.9% in the month, unwinding a 0.4% decline in July.

Today's key data and events:

NZ ANZ Business Confidence Sep prev -3.7 (10am)

AU Job Vacancies Aug prev -2.0% (11:30am)

AU Retail Sales Aug exp 1.0% prev 0.5% (11:30am)

CH Current Acc. Q2 Final prev US$65.3bn (TBC)

EZ Consumer Confidence Sep Final prev -17.8 (7pm)

EZ Economic Confidence Sep exp 92.4 prev 93.3 (7pm)

EZ Ger. CPI Sep Final exp 0.3% prev 0.3% (10pm)

US GDP Q2 Annualised Est. 3 exp 2.2% prev 2.1% (10:30pm)

US Core PCE Q2 Est. 3 exp 3.7% prev 3.7% (10:30pm)

US Pending Home Sales Aug exp -1.0% prev 0.9% (12am)

US Kansas City Fed Index Sep exp -2 prev 0 (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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