

Wednesday, 9 August 2023

| Equities (close & % change)   |          |        | Sydney Futures Exchange (last & change) |         |             |                      |         | Interest rates (close & change) |      |       |
|-------------------------------|----------|--------|---|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200                   | 7,311    | 0.0%   |   |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |      |       |
| US Dow Jones                  | 35,314   | -0.4%  | 10 yr bond                              | 4.00    |             |                      |         | 90 day BBSW                     | 4.18 | -0.01 |
| Japan Nikkei                  | 32,377   | 0.4%   | 3 yr bond                               | 3.72    |             |                      |         | 2 year bond                     | 3.78 | -0.14 |
| China Shanghai                | 3,418    | -0.3%  | 3 mth bill rate                         | 4.22    |             |                      |         | 3 year bond                     | 3.73 | -0.15 |
| German DAX                    | 15,775   | -1.1%  | SPI 200                                 | 7,246.0 |             |                      |         | 3 year swap                     | 4.02 | 0.00  |
| UK FTSE100                    | 7,527    | -0.4%  | FX Last 24 hrs                          | Open    | High        | Low                  | Current | 10 year bond                    | 4.02 | -0.18 |
| Commodities (close & change)* |          |        | TWI                                     | 60.5    | -           | -                    | 60.5    | <b>United States</b>            |      |       |
| CRB Index                     | 279.2    | 0.0    | AUD/USD                                 | 0.6572  | 0.6576      | 0.6497               | 0.6542  | 3-month T Bill                  | 5.27 | 0.00  |
| Gold                          | 1,925.24 | -17.7  | AUD/JPY                                 | 93.65   | 93.98       | 92.90                | 93.79   | 2 year bond                     | 4.75 | -0.01 |
| Copper                        | 8,313.75 | -135.3 | AUD/GBP                                 | 0.5142  | 0.5144      | 0.5112               | 0.5133  | 10 year bond                    | 4.02 | -0.07 |
| Oil (WTI futures)             | 82.76    | -0.2   | AUD/NZD                                 | 1.0770  | 1.0811      | 1.0754               | 1.0789  | <b>Other (10 year yields)</b>   |      |       |
| Coal (thermal)                | 148.25   | 0.6    | AUD/EUR                                 | 0.5975  | 0.5978      | 0.5931               | 0.5972  | Germany                         | 2.47 | -0.13 |
| Coal (coking)                 | 248.00   | 1.3    | AUD/CNH                                 | 4.7344  | 4.7368      | 4.7051               | 4.7339  | Japan                           | 0.61 | -0.02 |
| Iron Ore                      | 100.35   | 0.1    | USD Index                               | 102.07  | 102.80      | 102.07               | 102.55  | UK                              | 4.39 | -0.08 |

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:** Safe-haven flows dominated market action overnight, after China's trade data yesterday and the downgrade by Moody's.

**Share Markets:** US share markets ended in the red. The Dow fell 0.5%, the S&P 500 declined 0.4% and the Nasdaq dropped 0.8%. The share prices of US banks declined after the downgrade by Moody's stoked fears about the US financial system.

**Interest Rates:** Safe-haven demand led to stronger demand for US government bonds, leading to falls of 1 basis point and 7 basis points for US 2-year and 10-year bond yields, respectively.

**Foreign Exchange:** The AUD/USD made a fresh 7-week low of 0.6497 before recovering some ground to near 0.6540. Safe-haven flows supported demand for the US dollar.

**Commodities:** Base metal prices fell after yesterday's Chinese trade data. Oil rose overnight amid escalations in the Russia-Ukraine War. US crude inventories added 4.07 million barrels last week and Saudi Arabia reaffirmed its commitment to supply cuts.

**Australia:** Key measures of business confidence and conditions remained resilient in July. Business confidence jumped 2.4 points to a 6-month high of 1.8 and conditions moved a tad lower but stayed above the long-run average at 9.8. It's consistent with our new quarterly business snapshot published

last month, which underscored that in aggregate businesses are in a strong financial position heading into the next part of the economic cycle.

Capacity utilisation lifted from 83.6% in June to 84.5% in July – an elevated level and not far from the all-time high of 86.2%, suggesting the moderation in business credit growth should stay gradual in coming months.

Most interesting was what the business survey revealed about prices and costs. Growth in final prices appears to have re-accelerated – stepping up to a quarterly pace of 2.0% in July, from 1.0% in June – the monthly change was the biggest in the series (dating back to the late 1990s). Labour costs also accelerated to 3.7% in July, from 2.3% in the previous month.

The possible re-emergence of cost pressures deserves watching, especially if it turns into an underlying trend and shows up in other indicators. It possibly jeopardises the swap market's idea that the Reserve Bank rate-hiking cycle is done in this cycle.

The economic slowdown is being led by consumers tightening their belts. The entrenched pessimism of consumers is reflected in the outcomes of the latest Westpac-Melbourne Institute consumer survey. Confidence dipped 0.4% to 81.0 in August, around the average of the past 6 months and well under

the 100.0 that separates the optimists from the pessimists.

**China:** Data yesterday showed exports fell by 14.5% in the year to July. Imports dropped by 12.4% over the same time period. The outcomes were worse than consensus forecasts. A slowdown in US and other major economies' growth has dragged down Chinese exports this year. Meanwhile, China's domestic demand has remained lacklustre.

**United States:** The US Federal Reserve's Patrick Harker said policymakers may be able to stop hiking, barring any economic surprises. He added that the federal funds rate would need to stay at the current elevated level for some time. Richmond's Federal Reserve President Thomas Barkin argued against pre-judging September's decision, saying officials should look at intervening labour and inflation numbers.

Federal Reserve data showed that credit card balances topped \$1 trillion for the first time after rising by \$45 billion last quarter. Delinquency rates are back to pre-Covid levels. Total household debt rose 0.1%.

The trade deficit contracted by \$2.8 billion to \$65.5 billion in June. Data for May was revised to show the trade gap narrowing to \$68.3 billion instead of \$69.0 billion as previously reported. The sharp narrowing in the trade deficit in June demonstrates businesses are cutting back on their purchases of foreign-made capital goods, resulting in imports falling by 1.0% to the lowest level in more than 1½ years. The decline in imports potentially signals a slowdown in business investment and overall domestic demand amid significant interest rate hikes from the Federal Reserve. Meanwhile, exports fell 0.1% in the month, continuing the downward trend as the global economic backdrop softens.

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

NZ Card Spending Jul prev 0.9% (8:45am)

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.

**Besa Deda, Chief Economist**

Ph: +61 404 844 817

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@banksa.com.au  
+61 404 844 817

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@banksa.com.au  
+ 61 481 476 436

**Senior Economist**

Pat Bustamante  
pat.bustamante@banksa.com.au  
+61 468 571 786

**Economist**

Jameson Coombs  
jameson.coombs@banksa.com.au  
+61 401 102 789

The information contained in this report (the Information) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

---

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---