

Morning Report

Thursday, 14 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,154	-0.7%			Last	Overnight Chg			Australia		
US Dow Jones	34,576	-0.2%	10 yr bond		4.13	-0.02			90 day BBSW	4.12	-0.01
Japan Nikkei	32,707	-0.2%	3 yr bond		3.84	-0.01			2 year bond	3.86	-0.01
China Shanghai	3,274	-0.4%	3 mth bill rate		4.25	0.00			3 year bond	3.84	-0.01
German DAX	15,654	-0.4%	SPI 200		7,153.0	-5			3 year swap	4.08	0.00
UK FTSE100	7,526	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.13	-0.02	
Commodities (close & change)*			TWI		60.3	-	-	60.3	United States		
CRB Index	287.6	0.3	AUD/USD	0.6425	0.6434	0.6381	0.6421	3-month T Bill	5.29	0.00	
Gold	1,908.12	-5.6	AUD/JPY	94.53	94.83	94.18	94.63	2 year bond	4.97	-0.05	
Copper	8,406.50	27.8	AUD/GBP	0.5143	0.5149	0.5127	0.5141	10 year bond	4.25	-0.03	
Oil (WTI futures)	88.75	0.2	AUD/NZD	1.0886	1.0887	1.0845	1.0849	Other (10 year yields)			
Coal (thermal)	174.20	3.7	AUD/EUR	0.5972	0.5988	0.5956	0.5983	Germany	2.65	0.01	
Coal (coking)	290.25	2.3	AUD/CNH	4.6914	4.6962	4.6525	4.6683	Japan	0.71	0.00	
Iron Ore	118.95	-0.5	USD Index	104.57	104.97	104.51	104.77	UK	4.35	-0.07	

Data as at 9:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The US inflation report revealed a stronger-than-expected lift in underlying inflation pressures for August, but the overall report was mixed. US bond yields were lower at the close and currency markets were volatile.

Share Markets: US share markets took the consumer prices result in their stride. The S&P 500 ended the session barely higher (+0.1%) after swinging between gains and losses. Meanwhile, the Nasdaq rose 0.3% and the Dow lost 0.2%.

Interest Rates: The US 2-year treasury yield fell from 5.04% (pre-US-inflation data) to 4.96%, and closed the session at 4.97%, which is 5 basis points weaker. Meanwhile, the US 10-year yield fell from 4.31% to 4.23%, and closed at 4.25%, 3 basis points lower. Markets currently price the Fed funds rate, currently 5.375% (mid), to be 2 basis points higher at the next Fed meeting on 21 September, with a 55% chance of a hike by the end of this year.

Foreign Exchange: All eyes in currency markets were focused on the US inflation report overnight. However, the mixed result provided little by way of direction and more in the form of volatility. The US dollar index finished slightly higher, but well within its recent trading range. The DXY index ranged between a low of 104.51 and a high of 104.96 after whipsawing in the wake of the US inflation result. The EUR/USD has traded a very narrow range ahead of the European Central Bank decision, which seems

evenly balanced.

The Aussie dollar was similarly volatile on the release of the US inflation figures, but recovered to finish the session only marginally below where it opened yesterday in Asia. The AUD/USD pair fell to an overnight low of 0.6381, before quickly rebounding to a high of 0.6434 and is currently sitting around the 0.6420 handle.

Commodities: Oil was little changed and gold dipped.

Australia: CBA's household spending indicator rose 2.3% in August, taking the annual rate up 0.1 percentage points to 0.7% growth.

Eurozone: The European Central Bank (ECB) meets tonight. Uncertainty surrounds the ECB's decision as evidence builds that regional inflation is persistent amid slowing growth and a weakening euro. Consensus narrowly favours a pause, but interest-rate markets have flipped to price in a 68% chance of a 25-basis-point hike.

Industrial production declined by 1.1% over July, following a 0.5% increase in June. Durable goods production contracted for the fourth consecutive month while capital goods output declined for the second consecutive month. On a yearly basis, industrial activity contracted by 2.2% in July, the fifth consecutive month of contraction.

United Kingdom: Industrial production declined by

0.7% over July, following a 1.8% increase in June. The decline was driven by a fall in manufacturing output; electricity, gas, steam & air conditioning; and water supply. On a yearly basis, industrial activity grew 0.4%, slowing from the 0.7% recorded in June.

Economic activity declined by 0.5% over July, following a 0.5% expansion in June. This was a sharper contraction than the 0.2% the market was expecting. Services, construction, and manufacturing all contributed to the contraction. The outcome was the sharpest fall in activity in seven months and was impacted by strikes and wet weather.

United States: The August inflation report was broadly mixed, despite presenting some upside surprises. The consumer price index (CPI) rose 0.6% in August, it's fastest pace in almost a year. The acceleration in the monthly pace of inflation was expected and was primarily driven by an increase in petrol prices. In annual terms, headline inflation accelerated to 3.7% from 3.2% in July, narrowly topping expectations for a 3.6% gain.

The core measure, which excludes volatile food and energy prices, showed an upside surprise, albeit marginal. Core CPI rose 0.3% in August, above consensus expectations for a reading of 0.2%. In annual terms, core inflation slowed to 4.3%, from 4.7% in July. This was consistent with expectations despite the upside surprise to monthly growth.

The overall result echoes that of prior months, welcome progress on disinflation balanced against growing signs of stickiness in underlying inflationary pressures. This reminder that the final stretch in returning inflation to target is the most difficult is likely to keep some risk of a rate hike on the table at the Fed's September meeting.

Today's key data and events:

AU Inflation Expectations Sep prev 4.9% (11am)

AU Labour Force Aug (11:30am)

Employment exp 40k prev -14.6k

Unemployment Rate exp 3.6% prev 3.7%

Participation Rate exp 66.7% prev 66.7%

EZ European Central Bank Meeting (10:15pm)

Main Refi Rate exp 4.25% prev 4.25%

Marginal Lending Facility exp 4.50% prev 4.50%

Deposit Facility Rate exp 3.75% prev 3.75%

US Retail Sales Aug exp 0.1% prev 0.7% (10:30pm)

US Initial Jobless Claims Sep 9 exp 225k prev 216k (10:30pm)

US Producer Price Index Aug (10:30pm)

m/m exp 0.3% prev 0.4%

y/y exp 1.3% prev 0.8%

US Business Inventories Jul exp 0.1% prev 0.0% (12am)

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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