

Morning Report

Wednesday, 18 January 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,386	0.0%			Last	Overnight Chg		Australia			
US Dow Jones	33,911	-1.1%	10 yr bond		3.65	0.03		90 day BBSW	3.32	-0.02	
Japan Nikkei	26,139	1.2%	3 yr bond		3.24	0.01		2 year bond	3.14	-0.01	
China Shanghai	3,380	-0.1%	3 mth bill rate		3.53	-0.01		3 year bond	3.21	-0.01	
German DAX	15,187	0.4%	SPI 200		7,341.0	14		3 year swap	3.64	0.01	
UK FTSE100	7,851	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.60	0.01	
Commodities (close & change)*			TWI		61.7	-	-	61.9	United States		
CRB Index	277.2	1.3	AUD/USD		0.6950	0.6997	0.6930	0.6986	3-month T Bill	4.48	-0.01
Gold	1,908.47	-7.5	AUD/JPY		89.34	89.88	89.23	89.58	2 year bond	4.20	-0.03
Copper	9,097.69	-82.3	AUD/GBP		0.5699	0.5722	0.5666	0.5690	10 year bond	3.55	0.04
Oil (WTI futures)	81.01	1.2	AUD/NZD		1.0893	1.0918	1.0850	1.0867	Other (10 year yields)		
Coal (thermal)	330.00	3.9	AUD/EUR		0.6423	0.6481	0.6402	0.6472	Germany	2.09	-0.08
Coal (coking)	317.50	3.0	AUD/CNH		4.6881	4.7396	4.6865	4.7291	Japan	0.52	0.00
Iron Ore	121.50	0.9	USD Index		102.39	102.56	101.94	102.37	UK	3.32	-0.06

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: Investor sentiment waned into the end of the trading day as concerns around the corporate earnings outlook weighed on investors. Equity markets struggled to gain traction, bond yields were mixed, and the US dollar was broadly unchanged on the day.

Share Markets: The US equity market notched its first day of declines in five sessions as Goldman Sachs reported weaker-than-expected earnings and painted an uncertain picture of the outlook. The S&P 500 declined 0.2% at the end of the day. The Dow Jones was -1.1% weaker, while the Nasdaq bucked the trend and rose 0.1%.

The ASX 200 was flat yesterday. Futures are pointing to a positive open today.

Interest Rates: Interest rates were mixed as short-term rates declined, while longer-term rates rose. The US 2-year treasury yield pulled back 3 basis points, to 4.20%. The 10-year yield was 4 basis points higher, at 3.55%.

Interest-rate markets are pricing in 27 basis points of tightening at the upcoming Federal Reserve meeting in February. This implies that a 25-basis-point hike is fully priced, with some expectation of a 50-basis-point move. Markets expect the Fed funds rate to peak at around 4.9% in mid-2023.

The Australian 3-year government bond yield (futures) rose 1 basis point overnight, to 3.24%. The 10-year government bond yield (futures) was 3

basis points higher, at 3.65%. Interest-rate markets are pricing in 16 basis point of hikes at the upcoming February Reserve Bank Board meeting, implying a 64% chance of a 25-basis-point hike. Markets expect the cash rate to peak at around 3.74% in late 2023.

Foreign Exchange: The US dollar ended the session broadly unchanged against a basket of major currencies after swinging between gains and losses during the day. The USD Index traded between a low of 101.94 and a high of 102.56, before settling at 102.37, not far from its 102.39 open.

The AUD/USD pair gained ground despite a flat US dollar. The pair rose from a low of 0.6930 during the London session to a high of 0.6997 during the New York session, before pulling back to 0.6986.

Commodities: Oil rose to above US\$80 per barrel, while coal and iron ore were also higher. Gold and copper slipped on the day.

Australia: Consumer sentiment started 2023 on a positive note, rising to 84.3 in January, an increase of 5.0% in the month. This followed a reading of 80.3 in December.

Sentiment rose to its highest level since September but remained deeply pessimistic. In fact, pessimists continued to outnumber optimists in all states and across all sub-indices.

Encouragingly, consumers are becoming less

pessimistic about the future. Views around the economic outlook and family finances over the next 12 months improved. The economic conditions, next 12 months sub-index jumped by 10.2% in the month, to 81.4. The expectations sub-index also rose by 6.3%, to 89.1.

The labour market remains incredibly tight. This was echoed in the sentiment survey. The unemployment expectations index fell by 8.4% in the month, to 108.0. This indicates that fewer people expect the unemployment rate to increase over the next 12 months.

While some improvement has been evident over recent months, the mood among consumers remains persistently downbeat as higher interest rates, elevated cost-of-living pressures, and a pessimistic economic outlook have weighed on confidence.

Over the 5-month period from July to November 2022, net temporary overseas arrivals reached just under 180k. This includes people arriving with temporary skilled visas, temporary work visas and temporary student visas.

This is the highest for a 5-month period on record and suggests there is upside for the Government's net overseas migration forecast of 235k in 2022-23.

China: Quarterly GDP growth was flat in Q4 as case numbers surged and the economy experienced major disruptions due to the unwinding of the long-held COVID-zero policy.

Despite the weak result, the outcome was much better than the -1.1% fall expected by consensus. This resulted in annual growth slowing to 2.9% over the year, down from the 3.9% annual pace in the previous quarter. This was above consensus expectations of 1.6% annual growth.

Looking into the detail, retail sales were significantly stronger than consensus expectations as residents stocked up on essential food and medicines as case numbers spiked. However, this was offset by plunging services consumption as concerns over contracting the virus increased.

Retail sales fell by 1.8% over the year to December. This was above consensus expectations for a 9.0% plunge and followed a 5.9% drop over the year to November.

Industrial production was also stronger than expected, rising by 1.3% over the year to December. This was above consensus expectations of a 0.1% gain and followed a 2.2% rise over the year to November.

Eurozone: Investor sentiment in Germany jumped sharply in January as it moved into positive territory for the first time since the beginning of the war in Ukraine. Sentiment around the future, as measured by the ZEW expectations survey, jumped to +16.7 in January, up sharply from -23.6 in December. While expectations surged, views around the current situation remained downbeat, despite also moving higher. The current situation sub-index increased to -58.6 in January, from -61.4 in December.

The final German inflation result for December was in line with the preliminary estimate. Inflation declined by 0.8% in December, for an annual pace of 8.6% over the year.

United Kingdom: The labour market remained tight as unemployment rate was at 3.7% in November. This was unchanged from the October outcome and was in line with consensus expectations. Employment rose by 27k over the three months ending in November. This was stronger than consensus expectations for an unchanged result and followed a 27k gain in the prior three month period. Hourly earnings were also strong at 6.4% over the year to November. This followed a 6.2% annual gain in the prior period and was stronger than the 6.2% expected by consensus.

United States: Manufacturing activity in the New York region slumped sharply in January, as higher interest rates from the Federal Reserve impact economic activity. The measure fell to its lowest level since May 2020. The New York Federal Reserve empire manufacturing survey plummeted to -32.9 in January, following a -11.2 outcome in December. This is well below consensus expectations of -8.7 in the month. New orders dropped sharply to -31.1, from -3.6. Employment and production were also lower. In a positive sign for inflationary pressures, prices paid and prices received both declined.

Today's key data and events:

JP Machinery Orders Nov exp -1.0% prev 5.4% (10:50am)

JP Industrial Production Nov Final prev -0.1% (3:30pm)

UK CPI Dec exp 0.3% prev 0.4% (6pm)

US PPI Dec y/y exp 6.8% prev 7.4% (12:30am)

US Retail Sales Dec exp -0.9% prev -0.6% (12:30am)

US Ind. Production Dec exp -0.1% prev -0.2% (1:15am)

US Business Inventories Nov exp 0.4% prev 0.3% (2am)

US NAHB Housing Market Index Jan exp 31 prev 31
(2am)

US Federal Reserve's Beige Book (6am)

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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