

Morning Report

Thursday, 20 July 2023

| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | | |
|------------------------------------------|----------|-------|-----------------------------------------|------|-------------|----------------------|---------|---------------------------------|-------------------------------|-------|-------|
| S&P/ASX 200 | 7,324 | 0.5% | | | Last | Overnight Chg | | Australia | | | |
| US Dow Jones | 35,061 | 0.3% | 10 yr bond | | 3.90 | 0.04 | | 90 day BBSW | 4.29 | 0.00 | |
| Japan Nikkei | 32,896 | 1.2% | 3 yr bond | | 3.83 | 0.05 | | 2 year bond | 3.86 | -0.09 | |
| China Shanghai | 3,353 | 0.0% | 3 mth bill rate | | 4.41 | 0.03 | | 3 year bond | 3.79 | -0.09 | |
| German DAX | 16,109 | -0.1% | SPI 200 | | 7,286.0 | 2 | | 3 year swap | 4.19 | -0.01 | |
| UK FTSE100 | 7,588 | 1.8% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 3.87 | -0.11 | |
| Commodities (close & change)* | | | TWI | | 62.1 | - | - | 62.1 | United States | | |
| CRB Index | 273.1 | 1.2 | AUD/USD | | 0.6812 | 0.6820 | 0.6750 | 0.6772 | 3-month T Bill | 5.24 | 0.00 |
| Gold | 1,976.64 | -2.1 | AUD/JPY | | 94.57 | 94.84 | 94.21 | 94.54 | 2 year bond | 4.77 | 0.00 |
| Copper | 8,466.00 | -21.5 | AUD/GBP | | 0.5224 | 0.5261 | 0.5206 | 0.5233 | 10 year bond | 3.75 | -0.04 |
| Oil (WTI futures) | 75.35 | -0.4 | AUD/NZD | | 1.0855 | 1.0885 | 1.0793 | 1.0813 | Other (10 year yields) | | |
| Coal (thermal) | 145.40 | 0.6 | AUD/EUR | | 0.6067 | 0.6073 | 0.6023 | 0.6046 | Germany | 2.44 | 0.05 |
| Coal (coking) | 234.33 | -1.7 | AUD/CNH | | 4.8999 | 4.9097 | 4.8821 | 4.8971 | Japan | 0.47 | -0.01 |
| Iron Ore | 112.50 | 2.2 | USD Index | | 99.98 | 100.54 | 99.93 | 100.29 | UK | 4.22 | -0.12 |

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: Favourable economic data supported risk sentiment overnight. UK inflation came in softer than expected while underlying inflation in the eurozone looks to have turned, with ECB officials suggesting rate rises after July are “by no means a certainty no certainty.” Equity markets were higher, bond yields were generally lower, and the US dollar was slightly higher against major currencies.

Share Markets: US equities finished higher following sound earning reports from several banks and other significant companies. Shares of several US banks rallied after reporting a rise in customer deposits.

The S&P 500 closed 0.2% higher, the Dow Jones jumped 0.3%, while the Nasdaq was up slightly (+0.03%) as investors positioned ahead of important afterhours earning repots.

After markets closed Netflix reported that sales and revenue were slightly below consensus. Tesla reported lower margins, but sales were slightly above consensus.

The FTSE 100 was 1.8% higher following the softer than expected UK inflation data.

The ASX 200 closed 0.5% higher yesterday, after two consecutive days of losses. Nine of eleven sectors were higher, led by financials and energy shares. The advance followed the stock market rally

in the US.

Interest Rates: The US 2-year treasury yield was unchanged at 4.77%. The 10-year yield fell by 4 basis points, to 3.75%.

Interest-rate markets are now pricing one more rate hike from the US Fed, with a small chance of another hike before the end of the year. The first full rate cut is now priced in to occur mid-way through 2024.

The Australian 3-year bond (futures) yield increased by 3 basis points to 3.83%. The 10-year (futures) yield increased by 4 basis point to 3.90%.

Interest rate markets are pricing a 38% chance of a 25-basis point hike when the Reserve Bank meets in August. Markets are pricing a peak rate of around 4.35% by December 2023 – that is one more hike.

Foreign Exchange: The US dollar ended slightly higher against a basket of major currencies. The USD Index traded between a low of 99.93 and a high of 100.54. It was trading at 100.29 at the time of writing.

The Aussie was slightly lower after a volatile session, trading between a low of 0.6750 and a high of 0.6820. It was trading at 0.6772 at the time of writing.

Commodities: Commodities were mixed. Gold, copper, and oil finished lower. Iron ore and thermal coal were higher. The West Texas Intermediate

(WTI) future remains below US\$80 per barrel (US\$75.35).

Australia: The Westpac Melbourne Institute Leading Index remained in negative territory for the eleventh consecutive month in June. The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index lifted to -0.51% in June, from -1.01% in May, but remains deeply entrenched in negative territory. The slight monthly improvement was driven by US industrial production and dwelling approvals. The Index is a forward indicator for the likely pace of economic activity relative to trend three to nine months into the future.

New Zealand: The consumer price index (CPI) rose by 1.1% over the June quarter. This was down from the 1.2% growth rate recorded over the March quarter, but higher than the 0.9% the market was expecting. Food and housing costs were the main drivers of the quarterly outcome, with food prices increasing by 2.2% over the quarter, and housing relating costs increasing by 1.1% in quarterly terms. In annual terms, the CPI was 6.0% higher than a year ago, decelerating from the 6.7% recorded in the March quarter. Importantly, the annual rate of inflation was lower than the Reserve Bank of New Zealand (RBNZ) forecast of 6.1%.

United Kingdom: The CPI increased by 0.1% over the month of June. This was lower than the 0.4% the market was expecting and a significant step down from the 0.7% recorded over May. The soft result was driven by a fall in the price of motor fuel. The growth in the prices of food and non-alcoholic beverages, furniture and household goods, and restaurant meals also decelerated over the month, contributing to the result. In annual terms, the CPI increased by 7.9% in June, lower than the 8.2% the market was expecting. Underlying CPI, which excludes energy, food, alcohol, and tobacco, rose by 6.9%, again softer than the 7.1% the market was expecting. While the outcome was a positive, inflation remains well above the Bank of England's (BoE) 2.0% inflation target. Furthermore, elevated wages growth will continue to put upward pressure on services inflation, which will continue to concern the BoE.

Eurozone: Underlying inflation, which strips out volatile elements like food and energy, was confirmed at 5.5% over the year to June. This was slightly higher than the preliminary estimate of 5.4%. This follows a reading of 5.3% over the year to May. Food, alcohol & tobacco had the highest annual rate in June (11.6% over the year to June),

followed by non-energy industrial goods (5.5%) and services (5.4%).

European Central Bank Council member, Klaas Knot, said core inflation appears to have “plateaued,” describing any action beyond July as “a possibility but by no means a certainty.”

United States: Building permits declined by 3.7% over the month of June to an annual rate of 1.44 million, down from the 1.496 million recorded in May. Approvals for the multi density buildings declined by 12.8% to the lowest level since October 2020, while single-family buildings increased by 2.2% to 922 thousand.

Housing starts declined by 8% over the month of June to an annual rate of 1.434 million, down from the 1.559 million recorded in May. Single-family housing starts dropped by 7% to 935 thousand and starts in buildings with five units or more went down by 11.6% to 482 thousand.

Today's key data and events:

AU Labour Force Jun (11:30am)
 Employment Chg. exp 25k prev 75.9k
 Participation Rate exp 66.9% prev 66.9%
 Unemployment Rate exp 3.6% prev 3.6%
 EZ Cons. Confidence Jul Prel. prev -16.1 (12am)
 US Philadelphia Fed Index Jul prev -13.7 (10:30pm)
 US Existing Home Sales Jun prev 0.2% (12am)
 US Leading Index Jun prev -0.7% (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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