Morning Report

Thursday, 24 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,148	0.4%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	34,473	0.5%	10 yr bond	4.11		-0.08		90 day BBSW	4.14	0.00
Japan Nikkei	32,010	0.5%	3 yr bond	3.82		-0.05		2 year bond	3.89	-0.04
China Shanghai	3,227	-1.3%	3 mth bill rate	4.15		-0.01		3 year bond	3.87	-0.04
German DAX	15,728	0.1%	SPI 200	7,128.0		36		3 year swap	4.06	0.02
UK FTSE100	7,321	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.19	-0.08
Commodities (close & change)*			TWI	60.1	-	-	60.1	**United States**		
CRB Index	275.0	1.0	AUD/USD	0.6423	0.6484	0.6411	0.6482	3-month T Bill	5.28	0.00
Gold	1,915.48	18.0	AUD/JPY	93.69	93.96	93.23	93.85	2 year bond	4.97	-0.08
Copper	8,363.70	93.2	AUD/GBP	0.5045	0.5099	0.5038	0.5095	10 year bond	4.19	-0.13
Oil (WTI futures)	78.89	-0.8	AUD/NZD	1.0804	1.0846	1.0801	1.0844	**Other (10 year yields)**		
Coal (thermal)	161.25	-5.5	AUD/EUR	0.5922	0.5968	0.5917	0.5968	Germany	2.52	-0.13
Coal (coking)	257.50	0.0	AUD/CNH	4.6930	4.7259	4.6816	4.7239	Japan	0.67	0.01
Iron Ore	113.90	0.7	USD Index	103.58	103.98	103.30	103.36	UK	4.47	-0.18

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: Weaker than expected global economic activity indicators reinforced speculation that central banks will pause their hiking cycle. Equities markets ended in the green, with the S&P 500 posting its biggest gain since June. US bond yields pulled back, which pushed the US dollar lower. The Aussie outperformed and is trading above 0.6480.

Share Markets: US equities finished higher as the weaker than expected economic activity indicators helped fuel optimism that the hiking cycle was close to the end. Technology shares led the gains, with investors positioning ahead of Nvidia's earnings report. The report was released after close and showed solid revenue forecast fuelled by surging demand for AI processors. Sales in the three months ending in October is expected to be about $16 billion, much higher than the $12.5 billion estimate. The S&P 500 finished 1.1% higher, the Nasdaq closed 1.6% higher and the Dow Jones was up 0.6%.

The ASX 200 rose 0.4% yesterday, led by material stocks. Five of eleven sectors finished in the green. The index is poised for positive open this morning.

Interest Rates: US bond yields were lower across the yield curve. The 2-year yield finished 8 basis points lower at 4.97%. The 10-year yield finished 13 basis points lower at 4.19%.

Interest rate markets continue to price around a 40% chance of another hike from the Fed at some stage this cycle. Rate cuts are not fully priced until the middle of next year.

Aussie bond futures were lower. The 3-year bond (futures) yield fell by 5 basis points to 3.82%, while the 10-year (futures) yield declined by 8 basis points to 4.11%.

Interest rate markets are pricing around a 40% chance of another RBA hike between now and mid next year. There is very little chance attached to a hike in September.

Foreign Exchange: The AUD/USD pair gained ground overnight, rising to a high of 0.6484, before settling at above 0.6480 (at around 0.6482 at time of writing). Reports suggests that demand from local exporters increased amid speculation that Fed Chair Powell’s comments later this week might be less hawkish than expected, particularly given the backdrop of weak activity data.

The US dollar was lower on the back of the lower US government bond yields. The DXY index reached a high of 103.98 before falling to a low of 103.30 following the release of the US activity data. The index is now trading at around 103.36.

Commodities: Prices were mostly lower. The West Texas Intermediate (WTI) oil future also declined, closing at US$78.89 per barrel.

Australia: There were no major data releases.

New Zealand: Retail sales, adjusted for inflation, fell by 1.0% over the June quarter, following a 1.6% fall over the March quarter. This was weaker than the decline of 0.4% the market was expecting. It is the third consecutive quarter of declines in retail trade (adjusted for inflation). Major contributors to the decline were food and beverage services; hardware, building, and garden supplies; and electrical and electronic goods.

United Kingdom: The Composite PMI declined to 47.9 index points in August, from 50.8 points in July. This was lower than the 50.4 points the market was expecting. This outcome points to a renewed downturn in activity, ending a six-month period of expansion. Busiensss are reporting reduced orders for goods and services as demand is increasingly hit by cost-of-living pressures, higher interest rates, and concerns about the economic outlook.

Lower levels of activity were recorded in both the manufacturing and service sectors. The Services PMI declined to 48.7 index points in August, from 51.5 points in July. This was weaker than the 51.0 poitns the market was expecting. The Manufacturing PMI declined to 42.5 points in August, from 45.3 points in July. Again, this was weaker than the 45.0 points the market was expecting.

Inflationary pressures continued to moderate, with input costs rising at the slowest pace since February 2021, while output prices moderated for the fourth consecutive month.

Eurozone: The Composite PMI fell to 47.0 index points in August, from 48.6 points in July. This was lower than the 48.5 points the market was expecting. The latest read points to the steepest pace of contraction since November 2020. Business expectations of output levels in the coming year fell for a sixth consecutive month, reaching the lowest point since last December.

Business activity contracted at an accelerating pace as the downturn spread from manufacturing to services. The Services PMI declined to 48.3 index points in August, from 50.9 points in July. This was lower than the 50.5 points the market was expecting. Services activity contracted for the first time since the end of 2022 on the back of the downturn in demand. Output prices increased at the slowest pace since October 2021, while input inflation picked up due to rising salary pressures.

The Manufacturing PMI was broadly unchnaged at 43.7 index points in August, from the three-year low of 42.7 in July. While the read was better than the 42.7 points the market was expecting, the index remains deep in the contractionary territory. The result marked the fourteenth consecutive month of manufacturing contraction, with new orders for goods extending their decline at one of the fastest paces since the GFC.

Japan: The Services Purchasing Managers' Index (PMI) increased to 54.3 index points in August, from 53.8 points in July. It marked a full year of growth in the services sector. The monthly increase was driven by a rise in new orders. On the price front, input cost accelerated due to higher fuel prices.

The Manufacturing PMI edged up to 49.7 index points in August, from 49.6 points in July. The reading points to the third consecutive month of contraction in the manufacturing sector. Output, new orders, and export sales all declined.

United States: The Composite PMI declined to 50.4 index points in August, from 52.0 points in July. This was lower than the 51.5 points the market was expecting. The outcome showed that the downturn in the manufacturing sector was deepening while activity in the services sector was slowing. When it comes to prices, input cost inflation increased due to higher fuel, and raw material costs, while selling price inflation eased.

The Services PMI fell to 51.0 index points in August, from 52.3 points in July. This was lower than the 52.2 points the market was expecting and was the softest read in in six months. Input price growth accelerated in the period, although lower demand and increased competition limited the ability for businesses to pass-on the higher costs.

The Manufacturing PMI fell to 47.0 index points in August, from 49.0 points in July. This was lower than the 49.0 points the market was expecting. The decline was the second largest since January this year and was primarily driven by a drop in new orders.

The sale of new single-family houses increased by 4.4%, to an annual rate of 714 thousand in July. This was the highest level since February 2022. On the other hand, existing home sales fell by 2.2% over the month of July, to an annual rate of 4.07 million units, from 4.16 million units in June. This was the lowest level since January.

Today's key data and events:

US Chicago Fed Nat Activity Index prev -0.3 Jul (10:30pm)

US Durable Goods Orders Jul Prel. (10:30pm)

US Kansas City Fed Index Aug prev -11 (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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