Morning Report

Friday, 24 February 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,285	-0.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,154	0.3%	10 yr bond	3.88		-0.01		90 day BBSW	3.51	-0.02
Japan Nikkei	27,104	-1.3%	3 yr bond	3.63		0.02		2 year bond	3.61	0.02
China Shanghai	3,446	-0.1%	3 mth bill rate	3.67		0.00		3 year bond	3.62	0.02
German DAX	15,476	0.5%	SPI 200	7,230.0		8		3 year swap	4.07	0.00
UK FTSE100	7,908	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.88	-0.01
Commodities (close & change)*			TWI	62.0	-	-	62.0	**United States**		
CRB Index	266.9	0.8	AUD/USD	0.6805	0.6842	0.6782	0.6814	3-month T Bill	4.69	-0.02
Gold	1,822.28	-3.1	AUD/JPY	91.84	92.29	91.43	91.74	2 year bond	4.70	0.00
Copper	9,116.00	-82.5	AUD/GBP	0.5650	0.5680	0.5646	0.5667	10 year bond	3.88	-0.04
Oil (WTI futures)	75.39	1.4	AUD/NZD	1.0945	1.0962	1.0926	1.0933	**Other (10 year yields)**		
Coal (thermal)	197.35	0.3	AUD/EUR	0.6418	0.6445	0.6410	0.6427	Germany	2.48	-0.04
Coal (coking)	373.33	-2.0	AUD/CNH	4.6996	4.7173	4.6951	4.7122	Japan	0.51	0.00
Iron Ore	129.25	-0.6	USD Index	104.56	104.78	104.31	104.54	UK	3.59	-0.01

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

Main Themes: Risk sentiment fluctuated ahead of the release of key US inflation data tonight and amid mixed economic data, as the second estimate of US Q4 GDP was weaker. Equity markets finished higher after being down during the day, bond yields were mixed, with short-term yields ending unchanged and long-term yields declining. The US dollar ended broadly unchanged by the end of the session.

Share Markets: US share markets finished higher after a volatile session. The volatility was driven by pending US inflation data out tonight. The S&P lifted 0.5%, the Dow rose 0.3% and the Nasdaq jumped 0.7%.

Interest Rates: US bond yields have lifted considerably since the early part of this month on expectations the US Federal Reserve will need to take the Fed funds rate higher. Markets are pricing in a peak in the fed funds rate of 5.40% in July 2023. Overnight, the US 2-year yield closed broadly unchanged at 4.70%. Meanwhile, the US 10-year yield slid 4 basis points to 3.88%, which is a modest decline given the lift from the low earlier this month of 3.39%.

In Australia, cash-rate futures are pricing in 4 more rate hikes of 25 basis points each from the Reserve Bank by September (peak of 4.25%). Overnight, the Australian 3-year government bond yield (futures) rose from 3.62% to 3.67%. The 10-year (futures) yield was volatile, finishing near 3.88%.

Currencies: The US dollar index firmed in overnight trade, although pared the gains it made in the European session during the NY session and ended broadly unchanged. An upward revision in the GDP core personal consumption expenditure (PCE) boosted demand for the USD briefly in the early part of the NY session. The USD continues to be supported in the near term by expectations the Fed will take the fed funds rate to almost 5.50%. Former US Treasury Secretary Lawrence Summers' warnings about the US outlook could have contributed to some of the sell off in the USD in NY. In other major currencies, USD/JPY rose to 135.36 – its highest rate since 20 December last year - and ahead of Japanese inflation data and the first questioning of Bank of Japan Governor nominee Kazuo Ueda in parliament later today.

The AUD/USD continued to remain under selling pressure. Overnight, it fell to a low of 0.6782 – its lowest since 6 January – before recovering some of its losses. Key support for the AUD/USD is at 0.6750-0.6780 but ongoing strength in the USD could see the AUD/USD buckle under this support level and push towards 0.6670 in the near term.

Commodities: Oil snapped its longest losing streak this year, despite bearish data from the US showing US crude supplies swelled to their highest level since May 2021. The West Texas Intermediate (WTI) futures contract rose to above US$75. The move comes as US crude inventories rose by 7.65 million barrels last week. Many other key commodities were weaker, with gold, iron ore, copper, and coking coal all down on the day. Thermal coal ended higher.

Australia: New private capital expenditure (capex) jumped 2.2% in the December quarter, the largest quarterly jump since mid-2021. Additionally, the September quarter result was revised up substantially from a 0.6% fall to a 0.6% gain.

Elevated capacity utilisation through most of 2022 looks to have translated into stronger capex spending as businesses increase capacity to make the most of robust demand. The upcoming end to the instant assets write-off and the loss carry-back schemes is also prompting a pull-forward in capex spending.

Growth was concentrated in building and structures which jumped 3.6% in the December quarter, supported by the expansion of supply chain operations following the pandemic. Spending on machinery and equipment came in softer (up 0.6%) but remains elevated.

Capex spending could reach as high as $159.2 billion in 2022-23 if we adjust survey outcomes in line with historical norms. If we adjust using the realisation ratio from the most recent RBA tightening cycle (2010-11), our estimate for capex drops to $146.5 billion, a softer outlook. Adjusting the first estimate for 2023-24 using either method, growth in capex is expected to be less than 4% in that year – if realised, this would be a soft outcome.

Business investment appears to have gained momentum in the second half of 2022 as persistent capacity constraints and strong demand prompted a capex response. However, looking further ahead the outlook is less rosy. Rising interest rates and a sharp slowdown in activity will weigh on spending – something that's coming through in capex expectations.

United States: Economic activity expanded by an annualised 2.7% over the December quarter 2022. This was slightly below the preliminary estimate of 2.9%. Consumer spending increased by an annualised 1.4% over the quarter. Spending on goods went down 0.5%. This was revised from the preliminary estimate of a 1.1% increase. Spending on services increased by an annualised 2.4% over the quarter. This shows that demand for goods has really pulled back while demand for services remain solid.

The Chicago Fed National Activity Index rose to 0.23 in January 2023 from -0.46 in December. This suggests that activity has picked up. It follows three consecutive months of contraction. The production, employment, and personal consumption indicators contributed to the turnaround in the index.

The Kansas City Fed's manufacturing activity index increased to 0 in February, from -1 in January. This was above consensus expectations of -2. Looking at the sub-indices, the production index fell by 5 index points to -9 in February 2023. This was the fifth consecutive contraction in manufacturing production. The deterioration was particularly large in non-durable goods plants, mainly for plastics, chemicals, and food manufacturing. Shipments and new orders were also in negative territory. In a sign that inflationary pressures are still elevated, prices paid increase, rising from 20 to 26.

Today's key data and events:

JN CPI Jan y/y exp 4.3% prev 4.0% (10:30am)

UK GfK Consumer Sentiment Feb exp -43 prev -45 (11:01am)

US Personal Income Jan exp 1.0% prev 0.2% (12:30am)

US Personal Spending Jan exp 1.4% prev -0.2% (12:30am)

US PCE Core Deflator Jan exp 0.4% prev 0.3% (12:30am)

US New Home Sales Jan exp 0.7% prev 2.3% (2am)

US UoM Consumer Sentiment Feb Final exp 66.4 prev 66.4 (2am)

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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