

Morning Report

Wednesday, 27 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,038	-0.5%			Last	Overnight Chg		Australia		
US Dow Jones	33,619	-1.1%	10 yr bond	4.41	0.00			90 day BBSW	4.14	0.00
Japan Nikkei	32,315	-1.1%	3 yr bond	4.05	-0.01			2 year bond	4.08	0.05
China Shanghai	3,253	-0.4%	3 mth bill rate	4.31	0.01			3 year bond	4.06	0.06
German DAX	15,256	-1.0%	SPI 200	7,046.0	-24			3 year swap	4.24	0.00
UK FTSE100	7,626	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.40	0.09
Commodities (close & change)*			TWI	60.6	-	-	60.6	United States		
CRB Index	284.7	-0.2	AUD/USD	0.6424	0.6431	0.6388	0.6398	3-month T Bill	5.30	-0.01
Gold	1,900.65	-15.3	AUD/JPY	95.61	95.77	95.22	95.33	2 year bond	5.12	0.00
Copper	8,110.50	-88.3	AUD/GBP	0.5261	0.5275	0.5249	0.5263	10 year bond	4.54	0.00
Oil (WTI futures)	90.39	0.7	AUD/NZD	1.0768	1.0769	1.0743	1.0762	Other (10 year yields)		
Coal (thermal)	166.00	2.4	AUD/EUR	0.6064	0.6073	0.6042	0.6052	Germany	2.81	0.01
Coal (coking)	302.00	0.0	AUD/CNH	4.6991	4.7001	4.6717	4.6791	Japan	0.74	0.01
Iron Ore	114.00	-1.0	USD Index	105.94	106.26	105.86	106.18	UK	4.33	0.00

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: Risk sentiment continued to wane as bond yields remained elevated. Weaker-than-expected data fuelled concerns around the outlook amid continued high rates, reminding investors that a soft landing is not assured and that risks remain. This was compounded by the rising likelihood that the US Government will enter a shutdown in October. These factors flowed through to declines in stock markets and a further rise in the US dollar.

Share Markets: Equity markets sold off largely across the board, extending the broad run of losses since the Fed meeting last week. The S&P 500 lost 1.5% on the day and dropped to its lowest level since June. The Nasdaq fell 1.6% and the Dow Jones was 1.1% lower. The moves followed falls across Europe, as the Euro Stoxx 50 was 0.9% weaker. The UK FTSE 100 bucked the trend, eking out a tiny gain of less than 0.1%.

The ASX 200 declined 0.5% yesterday and closed at its lowest level since July. Nine of 11 sectors lost ground, with IT, materials and real estate all losing over 1%. Health care (+1.1%) was the standout performer, and financials (+0.1%) also finished in the green. Futures are pointing to a weak open today, following the lead from overseas markets.

Interest Rates: Interest rates remained elevated overnight, closing unchanged after swinging between gains and losses over the session. The US

2-year treasury yield ranged between a low of 5.11% and a high of 5.16%, before closing unchanged, at 5.12%. Similarly, the 10-year yield ended unchanged, at 4.54%, after ranging between a low of 4.48% and a high of 4.56%. Interest-rate markets are pricing a 44% chance of one more hike from the Fed in this cycle. A little over three cuts are priced by January 2025.

Australian bond yields also ended broadly unchanged. The 3-year government bond yield (futures) closed 1 basis point lower, at 4.05%. The 10-year futures yield was unchanged, at 4.41%. Interest-rate markets are pricing a little over an 80% chance of another hike from the RBA by mid 2024.

Foreign Exchange: The US dollar gained ground against a basket of major currencies for a third straight day as it jumped to its highest level since November 2022. The move resulted in the USD Index rising from a low of 105.86 to a high of 106.26. It pulled back slightly towards the end of the session, closing at 106.18.

The Aussie lost ground against the stronger US dollar, falling below 64 cents. However, it remained within the range it has been trading in since mid August. The pair dropped from a high of 0.6431 to a low of 0.6388. It was trading just under the 0.6400 handle, at 0.6398, at the time of writing.

Commodities: Oil closed higher, with the West

Texas Intermediate (WTI) futures pricing rising back above US\$90 per barrel. Coal prices were also higher. Gold, copper, and iron ore were lower.

Australia: Victorian Premier Daniel Andrews resigned yesterday after close to nine years as Premier. The Labor party will hold a caucus meeting today, where a new leader is expected to be chosen.

United States: Consumer confidence declined by more than expected in September – falling to its lowest level in four months. The Conference Board consumer confidence index fell to 103.0 in September. This was down from an upwardly revised 108.7 in August (up from an initially report 106.1). The outcome was below expectations for a 105.5 reading. Expectations for the future slipped back below 80 and fell to their lowest level since May – at 73.7 in September, from 83.3 in August. Readings below 80 have historically been associated with a recession within a year and the index spent much of 2022 and 2023 below that level. In contrast, views on the present situation strengthened, rising to 147.1, from 146.7 in August.

New home sales plunged 8.7% in August, following an upwardly revised 8.0% gain in July (revised from an initial 4.4% increase). The drop resulted in sales falling to their lowest level in five months, at 675k. Elevated prices and high mortgage rates continue to impact demand for housing, flowing through to weaker sales.

House prices continued to rise in July. The FHFA House Price Index rose 0.8% in the month, above expectations for a 0.4% gain. This followed a 0.4% gain in June. The S&P CoreLogic Case-Shiller 20-city index also reported gains – rising 0.9% in July compared to expectations for a 0.7% gain. In annual terms, prices rose 0.1% through the year to July. This followed four consecutive months of annual price declines.

The Richmond Fed manufacturing index rose to +5 in September – rising to above zero for the first time since April 2022. This followed a reading of -7 in August and beat expectations for a -7 outcome for the month. New orders were higher, while business conditions were still weak.

The Philadelphia Fed Non-Manufacturing index signalled continued weak activity, falling to -16.6 in September, from -13.1 in August. Services activity was also weak in the Texas region, as the Dallas Fed Services Activity index dropped to -8.6 in September, from -2.7 in August.

Today's key data and events:

AU CPI Indicator Aug y/y exp 5.2% prev 4.9% (11:30am)

CN Industrial Profits Aug y/y prev -6.7% (11:30am)

EZ M3 Money Supply Aug exp -1.0% prev -0.4% (6pm)

US Durable Goods Orders Aug Prel. exp -0.5% prev -5.2% (10:30pm)

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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