

Morning Report

Monday, 28 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,115	-0.9%			Last	Overnight Chg			Australia		
US Dow Jones	34,347	0.7%	10 yr bond		4.13				90 day BBSW	4.14	0.00
Japan Nikkei	31,624	-2.1%	3 yr bond		3.84				2 year bond	3.88	0.05
China Shanghai	3,212	-0.6%	3 mth bill rate		4.17				3 year bond	3.85	0.04
German DAX	15,632	0.1%	SPI 200		7,084.0			20	3 year swap	4.11	0.02
UK FTSE100	7,339	0.1%	FX Last 24 hrs	Open	High	Low	Current		10 year bond	4.16	0.05
Commodities (close & change)*			TWI	60.4	-	-	60.4		United States		
CRB Index	278.2	2.4	AUD/USD	0.6419	0.6441	0.6381	0.6407		3-month T Bill	5.30	-0.01
Gold	1,914.96	-2.0	AUD/JPY	93.60	93.98	93.50	93.81		2 year bond	5.08	0.05
Copper	8,349.25	-10.3	AUD/GBP	0.5092	0.5106	0.5080	0.5089		10 year bond	4.24	0.00
Oil (WTI futures)	79.83	0.8	AUD/NZD	1.0836	1.0872	1.0824	1.0855		Other (10 year yields)		
Coal (thermal)	160.60	2.6	AUD/EUR	0.5937	0.5961	0.5922	0.5934		Germany	2.56	0.05
Coal (coking)	256.25	0.0	AUD/CNH	4.6748	4.6962	4.6576	4.6675		Japan	0.66	0.01
Iron Ore	111.30	-0.4	USD Index	104.09	104.45	103.74	104.19		UK	4.44	0.01

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: Financial markets are likely to start this week in a volatile fashion after US and European central bank heads – meeting in Jackson Hole - signalled rates are likely to stay higher for longer.

Share Markets: Share markets ended higher in the US on Friday. The Dow jumped 0.7%, the S&P rose 0.7% (and had its best week since July) whilst the Nasdaq rose 0.9%.

Interest Rates: The US 2-year bond yield closed 5 basis points higher whilst the 10-year yield finished unchanged at 4.24%. It had been as high as 4.28% during the trading session. Markets currently attach a probability of 21% to a rate hike from the Federal Reserve next month. That is up from 18% in the previous trading session.

Foreign Exchange: The AUD/USD stuck to a familiar and narrow trading range on Friday night of 0.6381 to 0.6441. The prospect of a higher for longer Federal funds rate and vulnerable growth in China's economy is likely to keep the AUD under downward pressure within the trading range it has been in over the past several months.

Commodities: Oil edged higher while gold retreated.

Australia: There was no major economic data on Friday.

China: China's policymakers halved the stamp duty

on stock trades and pledged to slow the pace of IPOs to revive confidence. China's Securities Regulatory Commission said restrictions will also be set on the frequency and size of refinancing for some firms, with property developers exempted from the rule.

Evergrande posted a first half loss of US\$4.5 billion, as the world's most-indebted developer struggles in China's ongoing housing crisis. Evergrande has asked to convene meetings for creditors to approve its offshore debt overhaul plan later today.

In data, China's industrial profits fell 6.7% in July from a year earlier, compared with a drop of 8.3% in June.

Eurozone: European Central Bank (ECB) President Christine Lagarde said the ECB will set rates as high as needed and leave them there for as long as it takes. She steered clear of favouring a pause or hike next month.

United States: Federal Reserve Chair Jay Powell at Jackson Hole has warned that inflation "remains too high", raising the prospect of further interest rate increases should price pressures persist. In a highly anticipated speech on Friday, the chair of the US Federal Reserve at times struck a hawkish tone, pointing to the central bank's readiness to maintain a "restrictive" policy to bring inflation down to its 2 per cent target. Powell said, "although inflation has

moved down from its peak - a welcome development — it remains too high.” Powell also said the Fed is “prepared to raise rates further if appropriate” and that they intend to hold policy at a restrictive level until they are confident that inflation is moving sustainably down toward their objective. But he tempered that message with a pledge to proceed “carefully” as the Fed navigates the final stages of its campaign to stamp out the worst inflation shock in decades.

The University of Michigan consumer sentiment index slipped to 69.6 in August in the final print, from 71.2 in the preliminary print and from 71.6 in the prior month of July. Inflation expectations lifted. The 1-year inflation expectations measure ticked up to 3.5% in August, from 3.4% in July. The 5-10-year inflation expectations measure was unchanged at 3.0% after July’s outcome was revised up.

Today’s key data and events:

AU Retail Sales Jul exp 0.2% prev -0.8% (11:30am)

US Dallas Fed Mfg Survey Aug exp -19 prev -20
(12:30am)

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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