

Morning Report

Thursday, 3 August 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,355	-1.3%			Last	Overnight Chg		Australia		
US Dow Jones	35,283	-1.0%	10 yr bond	4.05		0.03	90 day BBSW	4.19	-0.07	
Japan Nikkei	32,708	-2.3%	3 yr bond	3.75		0.00	2 year bond	3.82	0.00	
China Shanghai	3,419	-0.9%	3 mth bill rate	4.24		0.01	3 year bond	3.76	0.01	
German DAX	16,020	-1.4%	SPI 200	7,241.0		-58	3 year swap	4.04	0.01	
UK FTSE100	7,562	-1.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.02	0.05
Commodities (close & change)*			TWI	61.4	-	-	61.4	United States		
CRB Index	276.5	-4.3	AUD/USD	0.6622	0.6630	0.6527	0.6537	3-month TBill	5.23	-0.03
Gold	1,934.45	-9.8	AUD/JPY	94.57	94.90	93.60	93.67	2 year bond	4.88	-0.02
Copper	8,488.24	-124.5	AUD/GBP	0.5177	0.5182	0.5139	0.5143	10 year bond	4.08	0.05
Oil (WTI futures)	79.67	0.2	AUD/NZD	1.0755	1.0803	1.0732	1.0754	Other (10 year yields)		
Coal (thermal)	133.50	-0.8	AUD/EUR	0.6010	0.6028	0.5972	0.5976	Germany	2.54	-0.02
Coal (coking)	244.50	4.0	AUD/CNH	4.7570	4.7585	4.7054	4.7075	Japan	0.63	0.02
Iron Ore	102.55	-1.4	USD Index	101.97	102.78	101.96	102.63	UK	4.40	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: Markets continued to react to the downgrade of the US's credit rating to AA+ by Fitch. The US Treasury announced it was also upping its issuance of long-dated debt. Markets reacted accordingly with stocks sold off and longer dated yields rising.

Share Markets: The S&P 500 recorded its biggest drop since April, declining by 63 points or 1.4% at the close. The Dow lost 1.0% and the Nasdaq 2.2%.

Interest Rates: US longer-dated yields rose as plans for a flood of government debt pushed bond prices lower. The US 10-year yield rose 5 basis points. The yield curve steepened with the US 2-year yield falling by 2 basis points.

The US Treasury boosted the size of its quarterly bond sales for the first time in 2½, testing dealers' appetite hot on the heels of Fitch's ratings cut. It will sell US\$103 billion of securities next week, spanning 3-, 10- and 30-year notes. That's up from \$96 billion last time.

Foreign Exchange: The US dollar touched its highest level in nearly 4 weeks, despite the recent downgrade of the US sovereign credit rating. The Australian dollar continued to sell off against the US dollar, touching an overnight low of 0.6527 – the lowest level since 1 June. Domestic data today is likely to add to market expectations that the Reserve Bank could be done tightening policy and add to further selling of the AUD/USD. The

AUD/USD has been in a range of 0.6458 to 0.6900 since late February. The AUD/USD is now moving towards the bottom of this range.

Commodities: US crude stockpiles plunged by a record 17 million barrels last week and are now at the lowest since January 2023. The massive drop only led to a slight increase in the West Texas Intermediate (futures) price of oil amid ongoing concerns about the global economic outlook.

Australia: There was no major economic data released yesterday in Australia.

New Zealand: The unemployment rate continued to nudge up from historic lows, climbing to 3.6% in the June quarter, from 3.4% in the March quarter. While the jobless rate ticks up, a record number of New Zealanders are in work, as measured by the labour force participation rate. That figure hit 72.4% – a record since the series began in 1986.

United States: The US jobs market outperformed again. Private-sector employers added 324,000 positions in July, the ADP said, easily topping the 190,000 estimate by consensus. Wage growth continued to slow. For those who changed jobs, the median rise in annual pay was 10.2%.

Fitch's recent downgrade has put a renewed focus on US debt trajectory. Borrowing has built up on pandemic stimulus and tax cuts, followed by investment programs for infrastructure and clean

energy. The ratings firm is concerned about the rising debt-to-GDP ratio.

Jeffrey Schmid is the new head of the Kansas City Federal Reserve. The former banking executive replaces Esther George and will take up his appointment on August 21, just before the branch hosts its annual Jackson Hole symposium. He won't be a voter on the Federal Reserve Open Market Committee (FOMC) until 2025.

Today's key data and events:

AU Trade Bal. Jun exp \$10.4bn prev \$11.8bn (11:30am)
AU Retail Sales Vols Q2 exp -0.6% prev -0.6% (11:30am)
EZ Producer Prices June exp -0.3% prev -1.9% (7pm)
UK Bank of England Rates exp 5.25% prev 5.00% (9pm)
US Initial Jobless Claims Jul 29 exp 225k prev 221k (10:30pm)
US Unit Labour Costs Q2 exp 2.5% prev 4.2% (10:30pm)
US S&P Services PMI Jul F exp 52.4 prev 52.4 (11:45pm)
US S&P Composit PMI Jul F prev 52.0 (11:45pm)
US Factor Orders Jun exp 2.3% prev 0.3% (12am)
US Dur. Goods Orders Jun F exp 4.7% prev 4.7% (12am)
US ISM Services Index Jul exp 53.0 prev 53.9 (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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