Morning Report

Friday, 15 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,187	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,907	1.0%	10 yr bond	4.11		0.00		90 day BBSW	4.12	0.01
Japan Nikkei	33,168	1.4%	3 yr bond	3.83		0.01		2 year bond	3.86	-0.02
China Shanghai	3,278	0.1%	3 mth bill rate	4.26		0.01		3 year bond	3.83	-0.02
German DAX	15,805	1.0%	SPI 200	7,283.0		88		3 year swap	4.07	0.00
UK FTSE100	7,673	2.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.11	-0.03
Commodities (close & change)*			TWI	60.2	-	-	60.2	**United States**		
CRB Index	290.3	2.7	AUD/USD	0.6421	0.6460	0.6419	0.6440	3-month T Bill	5.30	-0.01
Gold	1,910.79	2.7	AUD/JPY	94.63	95.05	94.51	94.94	2 year bond	5.01	0.04
Copper	8,406.50	27.8	AUD/GBP	0.5141	0.5196	0.5140	0.5189	10 year bond	4.29	0.04
Oil (WTI futures)	90.16	1.6	AUD/NZD	1.0849	1.0900	1.0834	1.0893	**Other (10 year yields)**		
Coal (thermal)	168.05	-1.9	AUD/EUR	0.5984	0.6056	0.5981	0.6051	Germany	2.59	-0.06
Coal (coking)	292.50	2.3	AUD/CNH	4.6696	4.7082	4.6680	4.6933	Japan	0.72	0.00
Iron Ore	121.65	1.0	USD Index	104.74	105.44	104.56	105.35	UK	4.28	-0.07

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: The European Central Bank (ECB) hiked rates by 25 basis points – the 10th consecutive hike in the cycle. The move takes the main refinancing rate to 4.50%. A reaction in financial markets either way was likely as economists and markets were somewhat split on what would happen. Slightly more economists surveyed by Bloomberg anticipated a hold decision, while financial markets were about 65% priced for a hike. Despite the increase, European bond yields and the euro both fell as markets latched onto a key new sentence in the statement, which implied that the ECB may be done hiking.

US data suggested that the economy remains resilient and added to expectations that a soft landing can be achieved. This supported equities, which closed higher on the day. The US dollar was stronger as the euro weakened and US bond yields rose.

Share Markets: US equity markets were stronger as traders priced in a higher chance that a soft landing may be able to be achieved given stronger-than-expected economic data. European equities were also higher earlier in the day as investors assessed the ECB's latest hike and reduced expectations around future interest rate increases.

The S&P 500 gained 0.8% and closed above 4,500 points. The Nasdaq was also 0.8% higher, while the Dow Jones gained 1.0%. Earlier in the day, the Euro Stoxx 50 rose 1.3%, the FTSE 100 gained 2.0%, and the DAX rose 1.0%.

The ASX 200 rose 0.5% yesterday. Futures are pointing to a positive open, following the lead from overseas markets.

Interest Rates: US bond yields ended higher after a volatile session which was focussed on the ECB decision and US data. The 2- and 10-year treasury yield both closed 4 basis points higher, at 5.01% and 4.29%, respectively. Interest-rate markets continue to price next to no chance of a hike at next week's Fed meeting. However, beyond that point, markets have around a 45% chance of another hike by the end of 2023. Looking further ahead, markets are pricing almost four 25-basis-point cuts by January 2025.

European bond yields were lower despite the hike from the ECB. The move lower came on the back of markets interpreting the statement to suggest that the ECB may be done hiking from here. The 2-year yield in Germany fell 3 basis points to 3.13%, while the French 2-year yield was 1 basis point lower, at 3.41%. Longer-term European yields also fell, the German 10-year yield dropped 6 basis points, to 2.59%, and the French 10-year yield was 7 basis points lower, at 3.12%.

Australian bond yields ended around where they opened. The 3-year Australian government bond yield (futures) was 1 basis point higher, at 3.83%, while the 10-year (futures) yield was unchanged at 4.11%. Interest-rate markets continue to expect the RBA to remain on hold in October. However, they have almost a 45% chance of one more hike later in this cycle, with a full 25-basis-point cut not fully priced until 2025.

Foreign Exchange: The US dollar strengthen against a basket of major currencies, largely reflecting the weaker euro. The USD index rose from a low of 104.56 to a high of 105.44. It was trading at 105.35 at the time of writing. The euro lost ground as the chance of future hikes was pared back. The EUR/USD dropped from a high of 1.0752 during the Asian session to 1.0654 shortly after the ECB decision. It fell further to a low of 1.0632 during New York and was trading at 1.0642 at the time of writing.

The AUD/USD rose after trading in a narrow range. The pair gained from a low of 0.6419 to a high of 0.6460, before pulling back to trade at 0.6440.

Commodities: Commodity prices were generally higher amid signs of continued strength in the US economy. Oil prices gained and the West Texas Intermediate (WTI) futures price rose above US$90 per barrel for the first time since November. Supply cuts from Saudi Arabia and Russia and the prospect of still robust demand continue to support oil prices. Iron ore rose, as did copper, coking coal and gold. Thermal coal slipped.

Australia: Employment surged by 64.9k in August, reflecting a rebound from a 1.4k fall in July. The bounce reflected a recovery from seasonal effects after the timing of school holidays impacted July.

Temporary factors such as the Women's FIFA World Cup also likely had an effect. Part-time jobs spiked by the most in almost 2 years. The crescendo of the tournament was in August and would have pushed up casual and part-time employment.

Looking through this volatility, average growth over the past two months was 31.7k – only slightly below average monthly growth over the last 12 months of 34.2k. While the labour market remains tight, only a tepid slowing is underway. On a three-month basis, employment growth slowed to 30.3k, from 33.5k in July, and down from the 2023 peak of 48.1k in March.

The unemployment rate was unchanged at 3.7%, as strong employment growth was matched by a gain in the labour force. In a sign of strength, the participation rate rose to a record 67.0%. The employment-to-population ratio also rose to a near record high of 64.5%.

For the Reserve Bank (RBA), recent readings are arguably falling into a goldilocks scenario – not too hot and not too cold. The easing in jobs gains have been orderly. Robust employment continues to support household income. The RBA will take some solace from this.

Yesterday's data supports the view that the RBA will remain on hold next month, as it assesses the data flow and monitors the impact of hikes to date. A further re-acceleration of labour market or inflationary pressures will likely be a necessary threshold for additional hikes to materialise. However, a tightening bias will probably be maintained as we are not out of the woods yet.

Consumer inflation expectations fell to 4.6% in September, following a 4.9% reading in August. Consumer inflation expectations have been broadly trending lower since peaking at 6.7% in June 2022.

Eurozone: The European Central Bank (ECB) hiked rates by 25 basis points – the 10th consecutive hike in the cycle. The move takes the main refinancing rate to 4.50%. Going into the meeting, economists and financial markets were split as to what the ECB would do. Despite the decision to hike, financial markets latched onto a new sentence in the post-meeting statement which suggested that the hiking cycle may be over: "Based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target."

However, later during the press conference, ECB President, Christine Lagarde, pushed back against those interpretations and noted the conditionality of that statement and that the ECB remains data dependent. She stated, "what I am saying here is that data and our assessment of data will actually tell us whether and how much ground we have to cover. So we are deliberately data-dependent and we have an open mind as to what the decisions will be in September and in subsequent meetings."

Japan: Core machinery orders fell 1.1% in July, following a 2.7% gain in June. This was below consensus expectations for a 0.8% decline. In annual terms, core machinery orders plunged 13.0% through the year to July. This was below consensus expectations, which centred on a 10.3% drop, and was the largest annual fall in almost three years. Core orders are a leading indicator of capital investment, and the weak result paints a gloomy picture for the business investment environment.

Industrial production slipped 1.8% in July in the final reading. This was slightly better than the initial estimate of a 2.0% fall. In annual terms, industrial production was down 2.3% through the year to July.

United States: Retail sales data surprised to the upside, suggesting that the health of the US consumer may be stronger than expected and supporting views that a soft landing may be possible. Retail sales rose 0.6% in August, above expectations for a 0.1% gain. The beat was muted somewhat but a downward revision to the July data, to 0.5%, from an initially reported 0.7%. The control group, which provides a better read on consumer spending in GDP and is closely watched, almost rose. Control group retail sales were up 0.1%, above expectations for a 0.1% fall. However, the July data was revised down, to 0.7%, from 1.0%.

Producer prices rose by more than expected as higher energy costs impact businesses. The producer price index (PPI) was up 0.7% in August, following a 0.4% gain in July. This was above expectations for a 0.4% increase. In annual terms, prices were 1.6% higher through the year to August, up from a 0.8% annual gain last month and above expectations for a 1.3% increase. Energy prices were a key contributor to price gains. Abstracting from that, the increase in the core PPI (ex. food and energy) was in line with expectations. Core prices were 0.2% higher in the month, following a 0.4% gain last month. In annual terms, core producer prices rose 2.2% through the year to August, in line with expectations and down from the 2.4% annual read last month.

Business inventories were flat in July, following a 0.1% fall in June. The outcome was slightly below expectations for a 0.1% gain.

Today's key data and events:

CH Industrial Production Aug y/y exp 3.9% prev 3.7% (12pm)

CH Retail Sales Aug y/y exp 3.0% prev 2.5% (12pm)

EZ Trade Balance Jul prev €12.5bn (7pm)

NZ BusinessNZ Mfg PMI Aug prev 46.3 (8:30am)

US Import Price Index Aug exp 0.3% prev 0.4% (10:30pm)

US Export Price Index Aug exp 0.4% prev 0.7% (10:30pm)

US NY Empire Mfg Sep exp -10.0 prev -19.0 (10:30pm)

US Indust. Production Aug exp 0.1% prev 1.0% (11:15pm)

US UoM Consumer Sentiment Sep Prel. Exp 69.0 prev 69.5 (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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