Morning report

Tuesday, 1 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,410	0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,560	0.3%	10 yr bond	4.02		-0.04		90 day BBSW	4.26	-0.02
Japan Nikkei	33,172	1.3%	3 yr bond	3.83		-0.03		2 year bond	3.94	-0.01
China Shanghai	3,450	0.5%	3 mth bill rate	4.35		0.01		3 year bond	3.87	-0.02
German DAX	16,447	-0.1%	SPI 200	7,383.0		25		3 year swap	4.15	0.02
UK FTSE100	7,699	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.06	-0.01
Commodities (close & change)*			TWI	61.1	-	-	61.1	**United States**		
CRB Index	282.2	1.7	AUD/USD	0.6652	0.6740	0.6649	0.6715	3-month T Bill	5.25	-0.02
Gold	1,965.09	5.6	AUD/JPY	93.83	95.83	93.71	95.53	2 year bond	4.88	0.00
Copper	8,648.24	96.2	AUD/GBP	0.5174	0.5242	0.5174	0.5231	10 year bond	3.96	0.01
Oil (WTI futures)	81.80	1.2	AUD/NZD	1.0796	1.0834	1.0780	1.0813	**Other (10 year yields)**		
Coal (thermal)	137.30	-2.2	AUD/EUR	0.6036	0.6115	0.6035	0.6106	Germany	2.49	0.00
Coal (coking)	237.25	-0.3	AUD/CNH	4.7597	4.8157	4.7572	4.7989	Japan	0.61	0.04
Iron Ore	107.40	0.0	USD Index	101.63	101.91	101.53	101.88	UK	4.31	-0.02

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US equities were higher as markets continued to entertain the possibility of a soft economic landing. Bond yields were broadly unchanged, and the US dollar was slightly up.

Ahead of the Reserve Bank Board's August meeting later this morning, Aussie bond futures moved lower, while the Aussie dollar outperformed. The AUD was supported by improved risk sentiment and reporting which suggests Chinese officials will provide details on economic support measures designed to provide the slowing economy a boost.

Share Markets: US equities finished higher, following the strong end to last week. The increased likelihood of a soft economic landing is supporting risk sentiment. The S&P 500 rose 0.2% in yesterday's trade, the Dow Jones rose by 0.3% and the NASDAQ was 0.2% higher.

The ASX 200 closed 0.1% higher. Health shares and industrials outperformed, with 8 of 11 sectors finishing the day higher. Futures are pointing to a positive open this morning.

Interest Rates: US treasury yields were broadly unchanged. The 2-year remained at 4.88%. The 10-year yield increased by 1 basis point to 3.96%.

Interest rate markets see a 37% chance of another rate hike by the end of the year. Markets have priced in one full rate cut by the middle of 2024.

Ahead of the Reserve Bank (RBA) Board's August meeting later this morning, Aussie bond futures moved lower. The 3-year government bond (futures) yield declined by 3 basis point to 3.83%, while the 10-year (futures) yield also declined by 4 basis point to 4.02%.

Markets are pricing around a 15% chance of a rate hike from the RBA at today's meeting. Market pricing still favours one final increase in the cash rate, though the timing is uncertain.

Economists on the other hand are generally expecting a hike - 18 of 30 economists surveyed by Bloomberg expect a 25-basis-point hike at today's meeting.

Foreign Exchange: The Aussie dollar outperformed, with the AUD/USD pair moving from a low of 0.6649 in early trade to a high of 0.6740 during the New York session, before settling at around 0.6715.

The US dollar ended slightly higher against a basket of major currencies. The USD Index traded between a low of 101.53 and a high of 101.91, before settling around 101.88.

Commodities: Commodity prices were broadly firmer. Gold, copper, oil, and iron ore gained.

The West Texas Intermediate (WTI) oil future also rose, closing at US$81.80 per barrel.

Australia: Private sector credit continues to stall, growing by just 0.2% over June, the slowest pace since November 2020. In annual terms, private credit grew by 5.5%, down by almost 1 percentage point from the 6.2% pace recorded just a month ago.

Business credit showed resilience while housing credit was soft. Business credit grew by 0.3% over the month. However, it grew by a solid 1.8% over the June quarter, up from the recent trough of 1.5% recorded in March.

Our inaugural quarterly business snapshot report (published last week) showed that businesses had been preparing for tougher times ahead by improving their liquidity position, including by paying down debt but maintaining credit lines and investing in their productive capacity. The outcome for the June quarter shows that businesses had the financial strength to take advantage of the expiring tax concessions and borrowed to invest. This is consistent with the solid growth we saw in machinery and equipment investment over the June quarter.

For the first time since activity was restricted by covid-induced lockdowns in June 2020, housing credit for investors declined by 0.1%. Higher interest rates, higher taxes in some states and uncertainty over future rate hikes seem to be outweighing the record increases in rental income.

This will have several implications for the housing market – with investors possibly leaving the market, more listings will test the depth of demand. Further, the supply of rental properties will decline at a time when vacancy rates are at a record low, putting upward pressure on rents.

There is no getting around it, credit growth is stalling to a halt. While some businesses are well placed to take advantage of opportunities which supported the June outcome, eventually business will respond to slowing demand. Credit growth is a leading indicator of demand. The Reserve Bank will be paying close attention to today’s outcome.

The Melbourne Institute's Monthly Inflation Gauge showed prices increased by 0.8% over July, from the growth of 0.1% recorded in June. In annual terms, the inflation gauge was 5.4% higher. The trimmed mean measure showed that underlying inflation increased by 0.6% over July, to be 5.1% higher in annual terms. The headline increase was driven by higher electricity prices, with underlying inflation shows that inflation continues to moderate.

China: The manufacturing Purchasing Managers' Index (PMI) rose to 49.3 index points in July, from 49.0 points in June. This was stronger than the 48.9 points the market was expecting. The latest print confirmed that manufacturing activity had contracted for four consecutive months. On the price front, input cost increased for the first time since March while output prices continued to slide for the fifth consecutive month.

The non-manufacturing PMI declined to 51.5 index points in July, from 53.2 points in June. This was weaker than the 53.0 points the market was expecting. While the PMI suggests the non-manufacturing sectors, which includes construction, services sector continues to grow, the index is showing signs of slowing. New orders contracted for the third consecutive month. On prices, input cost increased after falling in the previous two months, while output prices also declined over the month.

In response to the slowing economy, officials have promised measures to boost consumption, releasing a policy document with a raft of steps to help industries involved in home goods, food, plastic products, leather, and other sectors. More policy details may come at a briefing held by the National Development and Reform Commission this week. and other ministries.

Japan: Industrial production increased by 2.0% over the month of June, following a decline of 2.2% in May. This was below the 2.4% growth rate the market was expecting. The June outcome was the strongest read since February, mainly driven by motor vehicles, electronic parts and devices, and general-purpose and business-oriented machinery. On an annual basis, industrial output declined by 0.4% in June.

New Zealand: Business confidence increased to -13.1 index points in July, from -18.0 points in June. This was the 25th straight month of negative readings. Inflation expectations and pricing intentions continued to ease. At the same time, expected own activity slipped and capacity utilization eased. The proportion of firms reporting higher costs ticked up slightly, but the underlying downward trend remained apparent in the data, which would please the Reserve Bank of New Zealand

Eurozone: Economic activity grew by 0.3% over the June quarter 2023, following a flat read over the March quarter. The outcome was broadly in line with the 0.2% the market was expecting and shows that economic activity is running well below trend (or average). France and Spain demonstrated sustained growth rates, whereas Germany's economy stagnated.

Consumer prices declined by 0.1% over July, in line with market expectations. In annual terms, inflation increased by 5.3%, down from the 5.5% recorded in June. It is the lowest reading since January 2022, due to a further drop in energy prices, and a slowdown in cost of food, alcohol and tobacco and non-energy industrial goods. Services inflation continued to march higher to 5.6% in July from 5.4% in June. Core inflation rate, which excludes prices for energy, food, alcohol & tobacco, was unchanged at 5.5%, broadly in line with the 5.4% the market was expecting.

United States: The Federal Reserve Bank of Dallas' general business activity index for manufacturing in Texas rose to -20.0 index points in July, from -23.2 points in June. This was better than the -22.5 points the market was expecting. New orders have now been in negative territory for over a year and declined slightly to -18.1 index points over the month. Labour market measures suggested faster growth in employment and more hours worked, while inflationary pressures increased, and wage growth showed signs of moderation.

The Chicago Business Barometer increased to 42.8 index points in July, from 41.5 points in June. This was below the 43.5 points the market was expecting. New orders continued to slide, pointing to future weakness in activity. The outcome marked the 11th consecutive month of contraction in business activity in the Chicago region.

Chicago Fed president, Austan Goolsbee, said the US economy seems on a "golden path" of slowing inflation without falling into a recession. "That would be a triumph, and it's certainly a possibility," adding the Fed must "play by ear" if rates are restrictive enough.

Today's key data and events:

AU CoreLogic Dwelling Prices Jul exp 0.9% prev 1.2% (12:01am)
AU Housing Finance Jun (11:30am)
 Owner-occupier exp 1.3% prev 4.0%
 Investor exp 1.5% prev 6.2%
 Total exp 1.5% prev 4.8%
AU Building Approvals Jun exp -7.0% prev 20.6% (11:30am)
AU RBA Policy Meeting (2:30pm)
 Cash Rate Target exp 4.35% prev 4.10%
CH Caixin Mfg PMI Jul exp 50.2 prev 50.5 (11:45am)
EZ Markit Mfg PMI Jul Final exp 42.7 prev 42.7 (6pm)
EZ Unemploy. Rate Jun exp 6.5% prev 6.5% (7pm)
JN Job to Applicant ratio Jun prev 1.31 (9:30am)
NZ Building Permits Jun prev -2.2% (8:45am)
UK Markit Mfg PMI Jul Final prev 45.0 (6:30pm)
US Markit Mfg PMI Jul Final prev 49.0 (11:45pm)
US Construction Spending Jun exp 0.6%prev 0.9% (12am)
US ISM Mfg PMI Jul exp 46.9 prev 46.0 (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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