Morning report

Bank of Melbourne

Monday, 5 June 2023

Equities (close & % change)		
S&P/ASX 200	7,145	0.5%
US Dow Jones	33,763	2.1%
Japan Nikkei	31,524	1.2%
China Shanghai	3,386	0.8%
German DAX	16,051	1.2%
UK FTSE100	7,607	1.6%
Commodities (close & change)*		
CRB Index	259.7	2.3
Gold	1,947.97	-29.6
Copper	8,233.50	-11.5
Oil (WTI futures)	73.52	1.8
Coal (thermal)	134.15	3.3
Coal (coking)	225.50	0.0
Iron Ore	104.35	0.4

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	3.75		0.09	
3 yr bond	3.54		0.11	
3 mth bill rate	4.11		0.00	
SPI 200	7,229.0		76	
FX Last 24 hrs	Open	High	Low	Current
TWI	60.0	-	-	60.0
AUD/USD	0.6572	0.6638	0.6572	0.6601
AUD/JPY	91.24	92.61	91.20	92.40
AUD/GBP	0.5247	0.5312	0.5247	0.5303
AUD/NZD	1.0828	1.0911	1.0825	1.0901
AUD/EUR	0.6108	0.6177	0.6106	0.6165
AUD/CNH	4.6695	4.7027	4.6686	4.6899
USD Index	103.56	104.09	103.38	104.04

Interest rates (close & change)		
Australia		
90 day BBSW	4.02	0.01
2 year bond	3.74	0.10
3 year bond	3.53	0.10
3 year swap	3.88	0.01
10 year bond	3.73	0.09
United States		
3-month T Bill	5.20	-0.02
2 year bond	4.50	0.16
10 year bond	3.69	0.10
Other (10 year yields)		
Germany	2.31	0.06
Japan	0.41	-0.01
UK	4.16	0.04

Data as at 9:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US debt ceiling concerns drew to a close as the Senate passed the legislation and US President Biden signed the bill into law, confirming that the US Government will avoid default. Markets will now shift their focus to an expected surge of issuance of debt securities as the US Treasury looks to refill drained cash balances.

Stronger-than-expected US jobs data also drove market sentiment on Friday. Payroll jobs in May surged by 339k compared to consensus expectations of 195k. However, the labour market picture was somewhat complicated by the unemployment rising from 3.4% to 3.7%.

Bond yields jumped on the day, equity markets rallied as risk sentiment improved. The US dollar rose against a basket of major currencies, while the Aussie bucked the trend and extended its gains over the back half of last week.

Share Markets: Equity markets rallied on improved risk sentiment and a rebound in tech stocks. The S&P 500 ended 1.5% higher, the Nasdaq rose 1.1%, and the Dow Jones jumped 2.1%.

The ASX 200 close 0.5% higher on Friday. Futures are pointing to a positive open today.

Interest Rates: US government bond yields increased across the curve on the back of the stronger than expected jobs data. The US 2-year yield increased by 16 basis points to 4.50%. The US 10-year yield increased by 10 basis points to 3.69%.

Markets are currently attaching a probability of 26% to another rate hike from the Federal Reserve when they next meet in June. Markets are pricing in around one rate cut by early 2024.

The 3-year Australian government bond yield (futures) increased by 11 basis point, to 3.54%. The 10-year government bond yield (futures) increased by 9 basis points, to 3.74%.

Markets are currently attaching a 40% chance that the Reserve Bank (RBA) will hike in June and a full rate hike by August, following the release of the Fair Work Commission's Minimum wage decision.

Foreign Exchange: Risk sensitive currencies, including the Aussie dollar, made solid gains. The AUD/USD was also supported by higher domestic bond yields. The pair reached a high of 0.6638, before settling at around 0.6601.

The US dollar advanced against a basket of major currencies. It ranged between a low of 103.38 to a high of 104.90, before closing around 104.04.

Commodities: Commodities were mixed. Gold and copper were lower. Oil, coal, and iron ore made gains.

The West Texas Intermediate (WTI) crude future rose by more than 4% to US$73.45 per barrel, as OPEC+ agreed to extend cuts. Saudi Arabia's announced that it would cut an extra 1 million barrels per day in output in July, taking its production to the lowest for several years. The rest of OPEC+ pledged to maintain their existing cuts until the end of 2024.

Australia: The value of new housing finance, excluding refinancing, declined 2.9% in April, marking some volatility following the significant fall in lending underway since early 2022. The value of financing activity is now 31.5% below its peak in January last year.

It's important to note that monthly new housing lending commitments are still higher than at any point in time before the pandemic. This reflects both elevated prices and a recent stabilisation in housing demand underpinned by surging migration and tight rental markets.

Weakness in April was concentrated in owner-occupier borrowing, particularly for the construction of new dwellings, which fell 7.7% in the month. Borrowing for new dwelling construction is around 65% below its peak and is back around pre-covid levels.

Investor lending also declined. However, it didn't fully unwind a bounce in March and was 2.5% up on the February level. The peak-to-trough fall in investor lending is on par with owner-occupier borrowing, suggesting the downturn is persistent across both categories.

A resurgence in dwelling prices has emerged in recent months, while we are yet to see a clear stabilisation in new housing lending. This may reflect an increase in demand from cashed up buyers with less need to borrow. However, it is more likely highlighting the importance of the lack of advertised supply in driving recent dwelling price developments.

New Zealand: The terms of trade eased 1.5% in the March quarter, following a downwardly revised 1.8% increase in the December quarter. Both import and export prices fell in the quarter, reflecting the disinflationary pulse, though export price declines (-6.9%) outstripped import price declines (-5.4%).

United States: Employment data released on Friday was mixed but overall still reflected a very robust labour market.

The key non-farm payrolls data came in significantly hotter-than-expected in May. Payrolls jumped 339k in the month, smashing expectations for a 195k gain. Meanwhile, April's reading of 253k was revised up to 294k.

In contrast, the unemployment rate ticked up to 3.7% in May, from 3.4% in April. This compared to expectations of a more muted increase to 3.5%. Importantly, this increase in the unemployment rate occurred on a steady participation rate, which held firm at 62.6% for a third consecutive month.

Average earnings were also milder, growing at 0.3% in the month and 4.3% in annual terms. This is down from 0.4% and 4.4% in April and broadly met expectations. The reading provides some further evidence that wage pressures are receding without a material softening in labour market conditions.

Overall, the figures will make the Fed's next rate call more difficult, as there were no significant signs of outright strength or weakness. However, the mixed signals may see members opt on the side of caution and 'skip' a hike in June, before resuming the tightening cycle in July - as has been suggested by some members already.

President Joe Biden signed the suspension of the debt ceiling into legislation on Friday night following the senate vote on Thursday.

Today's key data and events:

AU MI Inflation Gauge May y/y prev 6.1% (11am)

AU Business Indicators Q1 (11:30am)

Inventories Q1 exp 0.3% prev -0.2%

Company Profits Q1 exp -3.0% prev 10.6%

AU ANZ Job Ads May prev -0.3% (11:30am)

CN Caixin Services PMI May exp 55.2 prev 56.4 (11:45am)

EZ Markit Services PMI May Final exp 55.9 prev 55.9 (6pm)

EZ PPI Apr y/y exp 1.5% prev 5.9% (7pm)

UK Markit Services PMI May Final exp 55.1 prev 55.1 (6:30pm)

US Markit Services PMI May Final exp 55.1 prev 55.1 (11:45pm)

US Factory Orders Apr 0.8% prev 0.4% (12am)

US ISM Non-Mfg May exp 52.4 prev 51.9 (12am)

US Durable Goods Orders Apr Final exp 1.1% prev 1.1% (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.

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
+61 401 102 789