

Tuesday, 29 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,160	0.6%			Last	Overnight Chg		Australia			
US Dow Jones	34,560	0.6%	10 yr bond		4.13	-0.01		90 day BBSW	4.14	0.00	
Japan Nikkei	32,170	1.7%	3 yr bond		3.86	0.00		2 year bond	3.90	0.02	
China Shanghai	3,249	1.1%	3 mth bill rate		4.16	0.00		3 year bond	3.86	0.01	
German DAX	15,793	1.0%	SPI 200		7,137.0	25		3 year swap	4.12	0.00	
UK FTSE100	7,339	0.1%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	4.14	-0.02
Commodities (close & change)*			TWI		60.1	-	-	60.1	United States		
CRB Index	278.6	0.4	AUD/USD		0.6408	0.6440	0.6402	0.6428	3-month T Bill	5.33	0.00
Gold	1,920.17	5.2	AUD/JPY		93.84	94.34	93.82	94.21	2 year bond	5.05	-0.03
Copper	8,349.25	-10.3	AUD/GBP		0.5093	0.5110	0.5092	0.5101	10 year bond	4.20	-0.03
Oil (WTI futures)	80.10	0.3	AUD/NZD		1.0856	1.0887	1.0845	1.0880	Other (10 year yields)		
Coal (thermal)	161.55	1.0	AUD/EUR		0.5936	0.5955	0.5923	0.5941	Germany	2.56	0.00
Coal (coking)	256.25	0.0	AUD/CNH		4.6697	4.6918	4.6669	4.6878	Japan	0.66	0.00
Iron Ore	113.20	0.9	USD Index		104.18	104.21	103.98	104.02	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: Market moves were broadly contained as there were no major economic releases or developments to drive sentiment and direction. Investors are looking forward to a big week with plenty of US data on inflation, spending, economic growth, and the labour market to gain a better understanding of the outlook for monetary policy. Bond yields slipped, equity markets closed higher, and the US dollar declined slightly against major currencies.

Share Markets: Equity markets ended higher as investors position ahead of important data later this week. The S&P 500 and Dow Jones both gained 0.6%, while the Nasdaq was 0.8% higher.

The ASX 200 closed 0.6% higher yesterday. The gain was driven by health care and consumer discretionary shares, both up over 1%. The financial sector also gained 0.8% on the day. In total, all but one of the 11 sectors finished in the green. IT, down 0.7%, was the only sector to record a loss. Futures are pointing to a positive open today, taking the lead from US markets.

Interest Rates: Bond yields declined ahead of key data releases. The US 2-year and 10-year treasury bond yield both declined 3 basis points, to 5.05% and 4.20% respectively. Interest-rate markets are attaching an almost 70% probability of another hike from the Fed in this cycle – most likely in November. This probability has been creeping

higher over recent days and is up from around 50% before Jerome Powell's speech at Jackson Hole last week. Cuts are still priced in 2024, but they have been pushed out slightly compared to last week. Interest-rate markets expect the first full 25-basis-point cut to come by July 2024, with around 3.5 cuts from the current level priced in 2024.

Australian government bond yields were little changed in the overnight session. The 3-year government bond yield (futures) was unchanged at 3.86%, while the 10-year yield (futures) slipped 1 basis point, to 4.13%. Interest-rate markets continue to expect a pause from the RBA at the September meeting. Beyond that point, markets attach an almost 60% probability of another hike by the end of 2023. This is up from a 40% probability of one more hike by March 2024 around the middle of last week.

Foreign Exchange: The US dollar lost ground against major currencies, in line with falls in US bond yields. The USD Index slipped from a high of 104.21 to a low of 103.98. It was trading at 104.02 at the time of writing.

The AUD/USD pair was slightly higher against a weaker USD. The pair remained above the important psychological level of 0.6400 and traded between a high of 0.6440 and a low of 0.6402. It was trading at 0.6428 at the time of writing.

Commodities: The West Texas Intermediate (WTI) oil futures price rose above US\$80 per barrel, while gold, iron ore and coal also gained. Copper dropped.

Australia: Retail spending increased 0.5% in July, partly reversing June's 0.8% fall. The increase was supported by some temporary factors, such as the 2023 FIFA Women's World Cup and school holidays. The Fair Work Commission's 2023-24 award and minimum wage increase, which took effect from 1 July, may have also supported spending.

Spending on most non-food categories increased, partly reversing the sharp falls recorded in June - Department stores (+3.6%) recorded the largest rise, followed by clothing & footwear (+2.0%), and other retailing (+0.3%). Spending at cafes & restaurants (+1.3%) also increased.

Despite the monthly increase, underlying growth in retail trade remains weak. Retail spending has gone sideways since November 2022, despite the record increase in the size of the working age population and the elevated inflation.

Compared to pre-pandemic levels, growth in retail trade has largely been driven by population and inflation. Inflation adjusted spending per capita has increased by an annual average pace of around 1.5% over the past three and a half years, below the pre-pandemic annual average of around 1.9%. More recently, inflation adjusted spending per capita has fallen by around 5.0% over the past year.

This shows the initial reopening impulse has largely faded and households are pulling back on spending. The result, coupled with the run of recent data such as the softer than expected labour force outcome, is consistent with the Reserve Bank remaining on an extended pause.

United States: Manufacturing activity in the Texas region remained in contractionary territory in August but was not as weak as expected. The Dallas Fed manufacturing index came in at -17.2 in August, up from -20.0 in July. This was above consensus expectations of -19.0. Despite the beat compared to expectations, the outcome still points to a challenging environment for the manufacturing sector. Most of the sub-indices remained deeply entrenched in negative territory. Production, capacity utilisation, and shipments remained negative and were weaker relative to the prior month. New orders also remained negative but rose compared to July. Prices paid rose at a faster rate compared to previous months, while prices received rose at a slower pace than July.

Today's key data and events:

AU RBA's Deputy Gov. Michelle Bullock Speech (5:40pm)

JP Job to Applicant ratio Jul prev 1.30 (9:30am)

US FHFA House Prices Jun exp 0.6% prev 0.7% (11pm)

US S&P CoreLogic CS House Prices Jun exp 0.8% prev 1.0% (11pm)

US Consumer Confidence Index Aug exp 116.2 prev 117.0 (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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