Morning report

Friday, 29 September 2023

Equities (close & % change)		
S&P/ASX 200	7,025	-0.1%
US Dow Jones	33,666	0.3%
Japan Nikkei	31,873	-1.5%
China Shanghai	3,261	0.1%
German DAX	15,324	0.7%
UK FTSE100	7,602	0.1%
Commodities (close & change)*		
CRB Index	287.1	-0.4
Gold	1,864.87	-10.3
Copper	8,088.00	21.8
Oil (WTI futures)	91.78	0.1
Coal (thermal)	161.25	-0.3
Coal (coking)	304.50	1.0
Iron Ore	119.55	1.5

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	4.50	0.03
3 yr bond	4.11	0.00
3 mth bill rate	4.31	0.00
SPI 200	7,097.0	45

FX Last 24 hrs	Open	High	Low	Current
TWI	60.4	-	-	60.4
AUD/USD	0.6352	0.6432	0.6345	0.6427
AUD/JPY	94.95	95.98	94.82	95.93
AUD/GBP	0.5234	0.5269	0.5228	0.5266
AUD/NZD	1.0727	1.0782	1.0718	1.0779
AUD/EUR	0.6047	0.6087	0.6041	0.6083
AUD/CNH	4.6528	4.6912	4.6473	4.6890
USD Index	106.67	106.76	106.02	106.14

Interest rates (close & change)		
Australia		
90 day BBSW	4.15	0.01
2 year bond	4.10	0.06
3 year bond	4.11	0.07
3 year swap	4.28	-0.02
10 year bond	4.46	0.08
United States		
3-month T Bill	5.32	-0.02
2 year bond	5.06	-0.08
10 year bond	4.57	-0.03
Other (10 year yields)		
Germany	2.93	0.09
Japan	0.76	0.02
UK	4.48	0.13

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 US Treasury selloff cooled overnight. Yields declined on the back of subdued consumer spending data and dovish comments from Fed officials. The US dollar weakened against every G-10 peer. US equities rebounded, led by the tech shares. The price of oil also eased overnight.

Share Markets: US equities finished in the green for the second consecutive session. The S&P 500 advanced 0.6%, with ten of eleven industry groups in the green. The tech-heavy Nasdaq rose 0.8%. The Dow Jones closed 0.4% higher.

The ASX 200 finished 0.1% lower yesterday. Nine of eleven sectors were lower, led by consumer discretionary stocks.

Interest Rates: The selloff in US Treasuries cooled overnight which saw yields decline across the curve. The 2-year treasury yield declined by 8 basis point to 5.06%. The 10-year yield declined by 3 basis points to 4.57%, off the 16-year high of 4.64% recorded in yesterday's session.

Interest rate markets are now pricing just over a 40% chance of another Fed hike by January 2024. A rate cut is not fully priced until July 2024. There are three full rate cuts priced in by January 2025.

Aussie bond futures were unchanged. The 3-year (futures) yield remained at 4.11%, while the 10-year (futures) yield remained at 4.50%.

Cash rate futures imply around a 90% chance of another rate hike from the Reserve Bank (RBA) by June next year. Cuts are not yet fully priced for 2024.

Foreign Exchange: The US dollar weakened against every G-10 peer, on the back of the decline in yields recorded overnight. The DXY declined from a high of 106.76 to low of 106.03. It has since retraced some of this decline and is currently trading at 106.14.

The Aussie outperformed breaking through the 0.6400 mark but still trading withing the range in the 0.6350-0.6450 range. The AUD/USD pair reached a high of 0.643. The pair has since retraced slightly and is currently trading at 0.6427.

Commodities: The West Texas Intermediate (WTI) oil future reached a high of over US$95 per barrel overnight (highest price in over a year), before easing to be US$91.78 per barrel.

Australia: Job vacancies fell by around 9.0% between May and August, to be 18% off the peak recorded in May 2022. Notwithstanding this decline, job vacancies are still around 70% higher than they were in February 2020. The percentage of businesses reporting at least one vacancy also fell from 25% in May to 22% in August - this was still double what it was in February 2020.

Retail sales rose 0.2% in August, following a 0.5% gain in July. Temporary tailwinds again helped to support spending, as the 2023 FIFA Women's World Cup (WWC) escalated to its climax in August, driving expenditure on sporting & fan apparel and at cafés & restaurants.

Hospitality spending hit a new record. However, considering the tailwind from the WWC, the result suggests households substituted spending from other categories to the event.

Despite the tailwinds, aggregate growth stayed soft and underwhelmed consensus expectations. In annual terms, nominal retail spending increased by only 1.5% – the weakest annual growth rate in two years.

The picture deteriorates further once we adjust for record population growth and still strong price increases. Indeed, nominal per capita spending fell 0.1% in the month and 1.3% through the year – demonstrating the pressure households are under in an environment of elevated inflation and higher interest rates.

Retail spending is expected to remain under pressure for quite some time, as tight monetary policy continues to be a strain on household budgets.

<u>Households are generating enough income to finance total expenditure, net lending declined over the quarter to be broadly flat (or around $2 billion from more than $70 billion in 2022).</u>

At the same time the stock of household deposits declined by $6.0 billion over the June quarter, the first quarterly decline since June quarter 2007 - or in 16 years.

Why has this occurred? Elevated cost of living pressures and higher interest rates are putting pressure on household budgets and households have had to dip into deposits. But not all households. Some pockets of households are generating more than enough revenue to finance spending.

What are the implications? Households must adjust! The sector cannot keep running down deposits to fund spending. It may also mean the cash flow channel of monetary policy becomes more potent as the financial position of households comes under pressure. This adjustment can occur by reducing expenditure and/or increasing income.

New Zealand: The Business Outlook Index rose to 1.5 index points in September from -3.7 in August. This was the first positive read since May 2021. Despite the aggregate increase there were small falls in several activity indicators including exports, investment, employment intentions, and construction intentions. In a positive sign, inflation expectations eased slightly and recorded the first reading below 5% since December 2021.

China: The June quarter current account surplus was revised down to USD64.7 from a preliminary estimate of USD65.3 billion. This compares to a USD73.8 billion surplus in the same period last year. It was the smallest current account surplus since the June quarter of 2021.

Eurozone: A decline in consumer confidence of 1.8 points to -17.8 index points in September was confirmed overnight. Households have become more pessimistic about their financial situation and the expected general economic situation. Consumers also signalled decreased intentions to make major purchases.

The economic sentiment indicator dipped to 93.3 in September, down from a revised 93.6 in August. This marked the lowest reading since November 2020. There was a decline in confidence among service providers, retailers, constructors, and consumers. On the pricing front, the gauge for selling price expectations among manufacturers rose by 0.5 points to 3.6.

Germany's inflation declined to 4.5% over the year to the month of September, from the rate of 6.1% recorded in August. This is the lowest inflation since the outbreak of the war in Ukraine in February 2022. The core rate, which excludes volatile items such as food and energy, fell to a one-year low of 4.6% over the year to the month of September.

United States: Weekly initial jobless claims ticked up to 204k. This was lower than the 215k the market was expecting.

US economic activity expanded by 2.1% in annualised terms over the June quarter. This third estimate was unchanged from the previous estimate. However, personal consumption was revised lower to 0.8% in annualised terms from the second estimate of 1.7%, largely due to slower spending on services.

The final core price index for personal consumption expenditures, which excludes food and energy, rose by an annualised 3.7% over the June quarter. This was in line with the second estimate and showed a slowing from the 5% read recorded in the March quarter. The June quarter outcome was the softest read since the March quarter 2021.

The Kansas City Fed monthly manufacturing index fell to -8 index points in September from a flat read in August. This was a softer result than the -2 index points the market was expecting. The monthly decline was driven by decreases in durable goods production, particularly metal manufacturing. The production, shipments, and new orders indexes all declined significantly.

Pending home sales declined by 7.1% in August, marking the steepest decline since September 2022. The outcome was softer than the fall of 0.8% the market was expecting. High-interest rates have pushed mortgage rates above 7%, clearly having an impacting homebuying.

Fed Committee member, Austan Goolsbee, said policymakers shouldn't place too much weight on the traditional economic idea that steep job losses are needed to quell inflation. He said the traditional view "misses key features of our recent inflationary experience and that, in today's environment, believing too strongly in the inevitability of a large trade-off between inflation and unemployment comes with the serious risk of a near-term policy error."

President of the Richmond Fed, Tom Barkin, called it too early to tell whether the Fed should raise rates again, and predicted that growth next quarter will be solid but not robust.

Today's key data and events:

AU Priv. Sector Credit Aug prev 0.3% (11:30am)
CH Caixin Mfg PMI Sep (11:45am)
CH Caixin Services PMI Sep (11:45am)
CH Mfg PMI Sep prev 49.7 (11:30am Sat 30 Sep)
CH Non-Mfg PMI Sep prev 51.0 (11:30am Sat 30 Sep)
EZ CPI Sep y/y Prel. (7pm)
JN Job to Applicant ratio Aug prev 1.29 (9:30am)
JN Industrial Production Aug (9:50am)
NZ ANZ Consumer Confidence Sep (7am)
UK GDP Q2 Final prev 0.2% (4pm)
US Personal Income Aug (10:30pm)
US Personal Spending Aug (10:30pm)
US PCE Core Aug (10:30pm)
US Chicago PMI Sep (11:45pm)
US UoM Consumer Sentiment Sep Final (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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