# Morning report

Monday, 6 February 2023

| Equities (close & % change) | | |
|---|---|---|
| S&P/ASX 200 | 7,558 | 0.6% |
| US Dow Jones | 33,926 | -0.4% |
| Japan Nikkei | 27,509 | 0.4% |
| China Shanghai | 3,421 | -0.7% |
| German DAX | 15,476 | -0.2% |
| UK FTSE100 | 7,902 | 1.0% |
| **Commodities (close & change)*** | | |
| CRB Index | 266.2 | -5.4 |
| Gold | 1,864.97 | -47.8 |
| Copper | 8,962.25 | -77.0 |
| Oil (WTI futures) | 73.39 | -2.5 |
| Coal (thermal) | 220.65 | -11.5 |
| Coal (coking) | 348.00 | 1.5 |
| Iron Ore | 122.50 | -2.4 |

| Sydney Futures Exchange (last & change) | | | | |
|---|---|---|---|---|
| | **Last** | | **Overnight Chg** | |
| 10 yr bond | 3.51 | | 0.12 | |
| 3 yr bond | 3.14 | | 0.13 | |
| 3 mth bill rate | 3.57 | | 0.07 | |
| SPI 200 | 7,513.0 | | 12 | |
| FX Last 24 hrs | Open | High | Low | Current |
| TWI | 62.9 | - | - | 62.9 |
| AUD/USD | 0.7084 | 0.7087 | 0.6896 | 0.6898 |
| AUD/JPY | 91.21 | 91.75 | 90.45 | 91.32 |
| AUD/GBP | 0.5789 | 0.5794 | 0.5729 | 0.5732 |
| AUD/NZD | 1.0933 | 1.0953 | 1.0889 | 1.0927 |
| AUD/EUR | 0.6490 | 0.6492 | 0.6393 | 0.6394 |
| AUD/CNH | 4.7716 | 4.7729 | 4.6968 | 4.6969 |
| USD Index | 101.72 | 103.01 | 101.55 | 102.99 |

| Interest rates (close & change) | | |
|---|---|---|
| **Australia** | | |
| 90 day BBSW | 3.34 | -0.02 |
| 2 year bond | 2.99 | -0.11 |
| 3 year bond | 3.01 | -0.14 |
| 3 year swap | 3.54 | 0.09 |
| 10 year bond | 3.38 | -0.16 |
| **United States** | | |
| 3-month T Bill | 4.52 | 0.01 |
| 2 year bond | 4.29 | 0.18 |
| 10 year bond | 3.52 | 0.13 |
| **Other (10 year yields)** | | |
| Germany | 2.19 | 0.11 |
| Japan | 0.50 | 0.00 |
| UK | 3.06 | 0.05 |

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:** Economic data coming out of the US was much stronger than expected. The data showed that the labour market continues to tighten with the unemployment rate falling to its lowest level since 1969. The services sector is also showing signs of bouncing back. This raised concerns that the Fed may need to increase rates by more than expected. On the back of this, US equities declined, while US bond yields and the US dollar rose sharply.

**Share Markets:** US equities finished lower in a volatile session as investors digested the stronger than expected economic data and mixed earning reports. The S&P 500 ended 1.0% lower on the day. The Nasdaq declined by 1.6% while the Dow Jones finished 0.4% lower.

The FTSE 100 set a fresh all time high after it ended 1.0% higher on the day. The previous peak was in May 2018. Investors now believe the UK will experience a "shallow" recession. The weaker Pound will help with earnings. Political stability is providing certainty, and growing optimism that global central banks will soon halt interest rate increases all contributed to this outcome.

The ASX 200 closed rose 0.6% to close at a nine-month high of around 7,558. Financials stocks led the market higher, as 9 of 11 sectors recorded gains. The Index was up by almost 0.9% over the week (or 64.27 points). Half-year earnings season kicks off this week with reports from the likes of Transurban, Suncorp, Mirvac, Boral and AGL.

**Interest Rates:** Bond yield increased across the US yield curve. The US 2-year treasury yield increased by 18 basis points to 4.29%. The 10-year yield increased by 13 basis points lower to 3.52%.

Interest-rate markets are pricing in 24 basis points of tightening at the upcoming Fed meeting in March and expect the fed funds rate to peak at above 5.0% in mid-2023.

Australian government bond yields mirrored the moves recorded in the US. The Australian 3-year government bond yield (futures) increased by 13 basis points to 3.14%, while the 10-year government bond yield (futures) increased by 12 basis points to 3.51%.

Interest-rate markets are pricing a 83% probability of a 25-basis-point hike when the Reserve Bank Board meets tomorrow. Markets are pricing the cash rate to peak above 3.6% in mid-2023.

**Currencies:** The US dollar traded higher against most of its G10 peers. The USD Index moved between a low of 101.55 and a high of 103.01, before settling at 102.99 – the highest level since early January 2023.

The AUD/USD pair weakened in line with the stronger US dollar. The pair moved from a high of 0.7087 to a low of 0.6896 during the New York session. After falling for three consecutive trading days the pair is now consolidating below the 0.70

mark. It is currently trading around 0.6899.

**Commodities:** Commodities were broadly weaker. The West Texas Intermediate (WTI) futures contract continued its decline to USD73.39 per barrel. Gold, thermal coal, copper and iron ore were lower. Thermal coal was up on the day.

**Australia:** The value of new housing finance (excluding refinancing) declined by 4.3% over the month of December. Both new lending for owner occupiers (down 4.2%) and investors (down 4.4%)

contributed to the monthly decline.

In annual terms new housing finance was 29.3% lower than a year ago, the sharpest annual decline on record (since the early 2000s).

Looking at owner occupiers alone, new housing finance was 29.8% lower than a year ago, the sharpest fall since March 1986 (a longer sample is available). Australia had a deep recession in the early 1990s underpinned by interest rates increasing to close to 20% – it is telling that new finance for owner occupiers has declined by a faster rate this cycle.

Furthermore, new finance for the construction of properties and to buy new properties is at its lowest level since 2020. This points to continued weakness in construction.

Despite easing this month, refinancing activity remains at close to record high levels, sitting 18.0% higher than a year ago. Refinancing activity by both owner occupiers (up 21.2% in annual terms) and investors (up 11.7%) have increased. We expect refinancing activity to remain elevated as higher interest rates continue to bite and more fixed rate mortgages roll over on to much higher variable rates.

**Europe:** The Producer Price Index increased by 1.1% over the month of December to be 24.6% higher in annual terms. The annual read was the lowest since November 2021. However, both the monthly and annual read were above market expectations of a 0.4% fall and a 22.4% gain, respectively. This suggests that inflationary pressures across Europe will remain high for some time. Prices rose at a slower pace for energy (48.6% annual growth in December compared with 55.4% in November) and intermediate goods (13.8% annual growth in December compared with 15.3% in November).

**New Zealand:** The consumer confidence index rose to 83.4 index points in January, from the 73.8 points recorded in in December. It was the highest read since October 2022. The 13% increase over the month was underpinned by an improved sentiment over the outlook for the economy and family finances. Inflation expectations were little changed at 5.3% for the year ahead.

**China:** The Caixin Services Purchasing Managers Index (PMI) increased to 52.9 in January, from 48.0 in December. This was the first growth in the service sector since August 2022, underpinned by the end of China's COVID zero restrictions. New orders increased for the first time in five months. Input cost inflation rose for the first time in five months, due to higher prices of materials and labour. Meanwhile, output prices eased amid price competition.

**United States:** The January payroll data continued to show a tight labour market even though the tech layoff continues. Employers added 517k jobs in January, the most since July and way above an average monthly gain of around 400k in 2022. This was nearly double the prior month's revised jobs gain of 260k and well above the 188k expected by the market. Gains were broad-based, as factories, retailers and restaurants added jobs.

The unemployment rate also unexpectedly retreated to 3.4% in January from 3.5% in December. This was the lowest unemployment rate since 1969 and better than the 3.6% the market was expecting.

Average hourly earnings rose 0.3% over January, to be 4.4% higher than a year ago. This was an easing over the upward revised 0.4% recorded in December. The outcome was in line with market expectations. It would have pleased the Fed to have more jobs without excessive wages growth. This outcome was supported by a larger labour force with the participation rate increasing from 62.3% in December to 62.4% in January.

While the data shows the labour market remains tight, several US economist were sceptical, suggesting that the change in seasonal factors are likely to have bolstered the payroll numbers and that the Fed is likely to take the result with a "grain of salt".

ISM Services PMI jumped to 55.2 points in January from the two and a half year low of 49.2 recorded in December. This was better than the 50.5 index points the market was expecting. Logistics performance continued to improve, and most companies indicated that business is trending in a positive direction. A rebound was recorded for new orders and price pressures eased.

**Today's key data and events:**

AU MI Inflation Gauge Jan y/y prev 5.9% (11am)

AU Retail Sales Volumes Q4 exp –0.3% prev 0.2% (11:30am)

CH Current Acc. Q4 prev US$144.3bn (6 Feb – 17 Feb)

EZ Ger. Factory Orders Dec (6pm)

EZ Retail Sales Dec prev 0.8% (9pm)

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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