Morning report

Friday, 22 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,065	-1.4%		Last			Overnight Chg	**Australia**		
US Dow Jones	34,070	-1.1%	10 yr bond	4.37			0.06	90 day BBSW	4.14	0.00
Japan Nikkei	32,571	-1.4%	3 yr bond	4.07			0.03	2 year bond	4.07	0.10
China Shanghai	3,234	-0.8%	3 mth bill rate	4.35			0.02	3 year bond	4.04	0.10
German DAX	15,572	-1.3%	SPI 200	7,013.0			-97	3 year swap	4.28	0.00
UK FTSE100	7,679	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.30	0.09
Commodities (close & change)*			TWI	60.8	-	-	60.8	**United States**		
CRB Index	285.9	-2.5	AUD/USD	0.6449	0.6453	0.6386	0.6414	3-month T Bill	5.30	-0.02
Gold	1,920.02	-10.3	AUD/JPY	95.57	95.68	94.54	94.66	2 year bond	5.14	-0.03
Copper	8,320.50	49.3	AUD/GBP	0.5224	0.5233	0.5197	0.5218	10 year bond	4.49	0.09
Oil (WTI futures)	89.63	0.0	AUD/NZD	1.0869	1.0875	1.0810	1.0814	**Other (10 year yields)**		
Coal (thermal)	160.40	-4.1	AUD/EUR	0.6047	0.6056	0.6006	0.6018	Germany	2.74	0.04
Coal (coking)	300.00	0.0	AUD/CNH	4.7124	4.7165	4.6749	4.6918	Japan	0.74	0.02
Iron Ore	117.00	-0.5	USD Index	105.44	105.74	105.28	105.39	UK	4.31	0.09

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 Bank of England (BoE) surprised economists by leaving rates unchanged at 5.25% as a raft of other central bank decisions also impacted market sentiment. A continued reaction from the Federal Reserve's decision yesterday and their indication that rates would remain higher for longer also dominated market movements.

Long-term bond yields continued their upward trend and the US 10-year treasury yield hit its highest level since November 2007. Equity markets sold off across the board in response to higher longer rates. The US dollar maintained most of its post-Fed gains, as the UK pound lost ground following the surprise BoE hold.

Share Markets: It was a sea of red on global equity markets overnight as investors reacted to indications from the Federal Reserve that rates would remain higher for longer – weighing on equity valuations. Most major markets lost more than 1% on the day. European indices lost ground in the early part of the day, followed by US markets. The S&P 500 dropped 1.6%, the Nasdaq lost 1.8% and the Dow Jones dropped 1.1%.

The ASX 200 dropped 1.4% yesterday and extended its run of consecutive losses to four days. All 11 sectors fell on the day. With six of 11 dropping by over 1%. Financials were the worst performer, losing 1.8% on the day. Futures are pointing to a loss on the open today, taking the lead from overseas markets.

Interest Rates: Bond yields continued to react to the Fed decision and decisions from other central banks, including the BoE. Longer-term rates moved higher and the US 10-year treasury yield hit its highest level since November 2007. The yield on the 10-year bond rose 9 basis points, to 4.49%. In contrast, the 2-year yield lost 3 basis points, to 5.14%, as bond markets reacted to a surprise hold decision from the BoE and the potential implications for other central banks. Interest-rate markets are pricing a slightly more than 50% chance of a 25-basis-point hike from the Fed by January next year. Looking further, markets are pricing around 2.5 cuts in 2024, down from closer to 3 cuts earlier this week.

In the UK, the 10-year yield jumped 9 basis points, to 4.31%. The 3-year Australian government bond yield (futures) rose 3 basis points, to 4.07%. The 10-year Australian government bond yield (futures) was 6 basis points higher, at 4.37%. Interest-rate markets are pricing no chance of a hike at the RBA's October meeting but have fully-priced a 25-basis-point hike by the middle of 2024. Markets now expect no chance of a cut in 2024, in contrast to earlier this week.

Foreign Exchange: The USD ended the session slightly lower against a basket of major currencies but maintained most of its post-Fed gains. The USD

Index ranged between a high of 105.74 and a low of 105.28, before closing at 105.39. The AUD/USD pair lost ground. The pair fell from a high of 0.6453 to a low of 0.6386. It was trading at 0.6414 at the time of writing.

The UK pound fell against the US dollar as the BoE surprised with a hold decision. The GBP/USD pair slipped from a high of 1.2351 during the Asian session yesterday, to an overnight low of 1.2239 after the BoE decision. It later recovered some ground and was trading at 1.2292 at the time of writing.

Commodities: Oil prices were broadly unchanged on the day and the West Texas Intermediate (WTI) futures price remained below US$90 per barrel. Gold, iron ore, and thermal coal also slipped. Copper was higher.

Australia: There were no major data releases yesterday.

Eurozone: Consumer confidence slipped further in contractionary territory in September. Confidence fell to -17.8 in the month, down from -16.0 in August. This was below consensus expectations for a -16.5 outcome. Confidence remains well above the 2022 low of -28.7, however, it has resumed falls in the past two months after recovering to -15.1 in July.

New Zealand: The economy grew 0.9% in the June quarter, following flat growth in the March quarter. March quarter growth was revised higher from an initially reported 0.1% contraction. This has resulted in the previously reported technical recession (two quarters of contraction over the December and March quarters) being revised away.

In annual terms, the economy grew 1.8% through the year. This was down from annual growth of 2.2% to the March quarter. Economic growth was more resilient than expected, with consensus expectations centred around quarterly growth of 0.4% and annual growth of 1.2%.

Strong population growth is supporting aggregate economic outcomes. On a per capita basis, the economy grew by a modest 0.2%.

Services industries grew 1.0% in the June quarter, following a 0.5% contraction in the March quarter. Goods-producing industries grew 0.7%, following a 0.7% contraction in the previous quarter.

Looking at specific industries, electricity, gas, water & waste services (3.1%), mining (2.7%), public administration & safety (2.8%), arts, recreation & other services (2.3%), business services (2.1%), and education & training (2.0%) all grew by 2.0% or more in the quarter.

From an expenditure perspective, exports (5.0%) contributed strongly to growth, with a decline in imports (-2.0%) also adding to growth. Household consumption slowed to 0.4% in the quarter, from 1.5% in the March quarter as household spending is increasingly impacted by higher rates. Government spending (2.0%) was another strong contributor.

The stronger-than-expected result raises the risk that the Reserve Bank of New Zealand may need to hike rates further in future meetings to sustainably bring inflation back to target. Indeed, market pricing has shift higher and interest-rate markets now attach a more than 100% probability of one more hike by the middle of next year. This is up from around a 75% chance prior to the release of the data.

United Kingdom: The Bank of England (BoE) surprised most economists with an on-hold decision at its monetary policy meeting – leaving the Bank Rate unchanged at 5.25%. Prior to this meeting, the BoE had hiked rates 14 consecutive times. The decision was a close call, with five members voting to leave rates unchanged and four voting for an increase of 25 basis points. In a further sign of a close call, those voting to remain on hold noted that this decision was finely balanced. Going into the meeting, only five of the 57 economists surveyed by Bloomberg expected the BoE to remain on hold and interest-rate markets were pricing around a 50/50 chance – which had fallen materially after a softer-than-expected inflation print earlier in the week.

The recent decline in inflation was noted and goods inflation was expected to continue to head lower. However, the statement noted the potential for services inflation to remain sticky, "services price inflation, however, is projected to remain elevated in the near term, with some potential month-to-month volatility."

Despite recently reported record growth in wages, the BoE noted that other labour market indicators pointed to a slowing in conditions. The statement noted that "there are increasing signs of some impact of tighter monetary policy on the labour market and on momentum in the real economy more generally".

The BoE maintained a tightening bias and was prepared to raise rates again if needed. It noted that rates would be "sufficiently restrictive for sufficiently long" to return inflation to its 2% target and that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures".

Public sector net borrowing came in at £10.8 billion in August. The August outcome was above expectations of £9.8 billion. However, this followed a fall in net borrowing of £1.2 billion in July (revised lower from an initially reported £3.5 billion increase). The budget deficit in 2023-24 so far has been running below official government forecasts as stronger-than-expected tax revenue have supported the budget position. However, government debt is still near 100% of GDP.

United States: The Philadelphia Fed business outlook survey continued its run of volatile results over recent months. The survey fell sharply to -13.5 in September – completely reversing a large spike up to +12.0 in August. The September reading has seen the measure return to the same reading as in July and suggests that the August surge was not reflective of underlying conditions. The outcome was also well below expectations of -1.0. New orders fell sharply from positive to negative and shipments were also lower. On the prices front, both prices paid and prices received rose compared to the prior month, suggesting that price pressures remain.

Existing homes sales slipped 0.7% in August – falling to their lowest levels in seven months, at 4 million. The decline followed a larger 2.2% drop in August and was below expectations, which centred on a 0.7% increase. Historically high interest rates are hampering both supply and demand. On the demand front, elevated rates impact affordability for buyers. For supply, existing homeowners are reluctant to sell and move to a new residence, as they will need to move away from their current low fixed rate to historically high rates. This trend has impacted the amount of stock available and broader activity in the housing market.

The leading index remained in negative territory, falling to -0.4% in August, from -0.3% in July. The leading index combines a range of economic indicators. Weak new orders from the ISM PMI index were the biggest drag on the result, while an increase in building permits was the largest positive contributor.

Today's key data and events:

EZ Markit Services PMI Sep Prel. exp 47.6 prev 47.9 (6pm)

EZ Markit Mfg PMI Sep Prel. exp 44.0 prev 43.5 (6pm)

JP CPI Aug y/y exp 3.0% prev 3.3% (9:30am)

JP BoJ Policy Decision

Policy Rate exp -0.1% prev -0.1%

NZ Trade Balance Aug prev -$1.1bn (8:45am)

UK GfK Consumer Sentiment Sep exp -26 prev -25 (9:01am)

UK Retail Sales Aug exp 0.5% prev -1.2% (4pm)

UK Markit Mfg PMI Sep Prel. exp 43.2 prev 43.0 (6:30pm)

UK Markit Services PMI Sep Prel. exp 49.4 prev 49.5 (6:30pm)

US Markit Mfg PMI Sep Prel. exp 48.2 prev 47.9 (11:45pm)

US Markit Services PMI Sep Prel. exp 50.7 prev 50.5 (11:45pm)

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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