

Monday, 29 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,155	0.2%			Last	Overnight Chg		Australia		
US Dow Jones	33,093	1.0%	10 yr bond	3.72			-0.01	90 day BBSW	3.95	0.02
Japan Nikkei	30,916	0.4%	3 yr bond	3.44			0.00	2 year bond	3.60	0.01
China Shanghai	3,367	0.4%	3 mth bill rate	3.97			0.01	3 year bond	3.44	0.03
German DAX	15,984	1.2%	SPI 200	7,245.0			70	3 year swap	3.79	-0.04
UK FTSE100	7,627	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.73	0.03
Commodities (close & change)*			TWI	60.0	-	-	60.0	United States		
CRB Index	260.7	2.2	AUD/USD	0.6507	0.6544	0.6491	0.6517	3-month T Bill	5.10	-0.07
Gold	1,946.46	5.0	AUD/JPY	91.14	91.72	90.81	91.66	2 year bond	4.56	0.03
Copper	8,124.50	180.8	AUD/GBP	0.5281	0.5286	0.5272	0.5279	10 year bond	3.80	-0.02
Oil (WTI futures)	72.67	0.8	AUD/NZD	1.0730	1.0787	1.0708	1.0771	Other (10 year yields)		
Coal (thermal)	137.15	-1.8	AUD/EUR	0.6065	0.6087	0.6055	0.6076	Germany	2.54	0.02
Coal (coking)	230.00	-2.5	AUD/CNH	4.6142	4.6241	4.5972	4.6093	Japan	0.42	-0.01
Iron Ore	101.30	0.7	USD Index	104.24	104.42	103.85	104.23	UK	4.33	-0.04

Data as at 8am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Optimism of a debt ceiling resolution grew on Friday and over the weekend with a vote set for this Wednesday. But inflationary pressures remain a concern with data on Friday not ruling out more tightening from the US Federal Reserve.

Share Markets: US share markets closed higher on Friday amid optimism of a debt ceiling resolution. The Dow jumped 1.0%, the S&P 500 lifted 1.3% and the Nasdaq surged 2.2%.

Interest Rates: The Fed's focus on the personal consumption expenditure (PCE) deflators and the lift in April's data suggests a rate hike can't be ruled out in June. This helped bond yields at the shorter end to rise. The US 2-year bond yield rose 3 basis points to close at 4.56%. But the 10-year yield eased 2 basis points. The market is attaching a probability of 69% to a rate hike from the Fed at its next meeting, up from 54% before the PCE data. Meanwhile, markets have very long odds of a rate hike from the Reserve Bank (RBA) next week but have a 59% probability attached to a rate hike by August.

Foreign Exchange: Currency markets were very volatile on Friday reflecting responses to developments over the US debt ceiling and published US economic data. Amid this volatility, AUD/USD fell to a Friday low of 0.6498, which is a tad above the previous session's low of 0.6491, before rising to 0.6545 and falling briefly back under

0.6500 again. The NZD remained under selling pressure in the wake of the Reserve Bank of New Zealand's more dovish messaging about the outlook. NZD/USD fell to a seven-month low of 0.6033 and AUD/NZD strengthened to 1.0795.

Commodities: News reports suggest that oil tensions are on the rise as Russia keeps pumping cheaper crude into the market. Saudi Arabia has flagged that Russia is undermining efforts to bolster oil prices by failing to fully implement promised output cuts. The next OPEC+ meeting is on June 4.

Australia: Retail trade was flat over the month of April. Only two categories recorded increases - clothing, footwear, and personal accessory; and departments stores. These categories were boosted by spending on winter clothing in response to cooler than average weather.

The outcome confirms that the slowdown in spending extended beyond the March quarter. On a per capita basis, spending has fallen by 1.3% over the past 6 months (sharpest fall since the early 2008 outside of COVID), declining back to the level recorded in July. In other words, individuals are spending the same as they did in the middle of last year. Given elevated inflation, this means that individuals are buying a smaller number of items than they did last year.

Even when including the huge surge in migration, total spending has not grown over the past 6

months – it's back at its October level. In an environment of elevated inflation, the volume of spending is going backwards.

Households are clearly adjusting to the fall in real wages, higher interest rates and accelerating rents. We have seen a stark pull back on discretionary items. Over the past six months, retail trade excluding food and cafes, restaurants & takeaway has fallen by 2.3%.

China: Industrial profits extended declines due to sliding price and sluggish demand, with the January-to-April tally dropping 20.6% year on year. For April alone, there was a 3.7% gain. The data underscores doubt over the country's economic rebound.

United States: The PCE deflator jumped 0.4% in April following March's 0.1% print, above the consensus expectation of 0.3%. The core PCE deflator ticked up 0.4% from a 0.3% rise in March — consensus had expected 0.3%.

In year-over-year terms the PCE deflator rose 4.4%, while the core PCE deflator rose to 4.7%. These outcomes were above consensus forecasts of 4.3% and 4.6%, respectively. Both figures accelerated from March's results of 4.2% and 4.6%, respectively.

Personal income accelerated to 0.5% in April, from 0.1% growth in March. Personal income growth also picked up, to 0.4% in April, after a 0.3% print in March.

Durable goods orders lifted 1.1% in April, after a rise of 3.3% in March.

The University of Michigan consumer sentiment index rose from 57.7 in April to 59.2 in May. The outcome remained weak and was a tad lower than consensus expectations (58.0).

Inflation expectations for 1-year ahead fell from 4.5% to 4.2% and the 5-10-year ahead measure fell from 3.2% to 3.1% (in line with consensus expectations).

US President Joe Biden and House Speaker Kevin McCarthy have expressed confidence that Congress would pass a deal on the US debt ceiling. A vote has been set for Wednesday. As it stands, the agreement includes a two-year pact to keep non-defence spending roughly flat. It also largely omits an energy permit overhaul, a win for progressives, and adds work requirements for social benefits, a Republican priority. US Treasury Secretary Janet Yellen has warned that cash will run out by June 5.

Today's key data and events:

US FHFA House Price Index Mar exp 0.2% prev 0.5% (11pm)

US House Price Purchase Index Q1 prev 0.3% (11pm)

US S&P CoreLogic Mar 0.00% prev 0.06% (11pm)

US Conf Board Cons Confid May exp 99 prev 101.3 (12am)

US Dallas Fed Mfg Index May exp -18 prev -23.4 (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.

Besa Deda, Chief Economist

Ph: +61 404 844 817

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

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