

Morning Report

Thursday, 6 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,253	-0.4%			Last	Overnight Chg		Australia		
US Dow Jones	34,289	-0.4%	10 yr bond		4.07		0.07	90 day BBSW	4.27	-0.07
Japan Nikkei	33,339	-0.3%	3 yr bond		4.03		0.06	2 year bond	4.12	0.05
China Shanghai	3,379	-0.7%	3 mth bill rate		4.52		0.04	3 year bond	4.03	0.05
German DAX	15,938	-0.6%	SPI 200		7,182.0		-37	3 year swap	4.36	0.01
UK FTSE100	7,442	-1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.07	0.07
Commodities (close & change)*			TWI	61.7	-	-	61.7	United States		
CRB Index	262.8	1.9	AUD/USD	0.6691	0.6698	0.6653	0.6655	3-month T Bill	5.20	0.00
Gold	1,915.30	-10.2	AUD/JPY	96.65	96.83	96.06	96.22	2 year bond	4.94	0.01
Copper	8,317.75	-40.8	AUD/GBP	0.5264	0.5268	0.5238	0.5239	10 year bond	3.93	0.08
Oil (WTI futures)	71.90	0.1	AUD/NZD	1.0807	1.0813	1.0762	1.0772	Other (10 year yields)		
Coal (thermal)	151.00	-0.3	AUD/EUR	0.6150	0.6153	0.6115	0.6131	Germany	2.48	0.02
Coal (coking)	226.00	-1.5	AUD/CNH	4.8370	4.8470	4.8309	4.8332	Japan	0.39	0.01
Iron Ore	109.60	0.0	USD Index	103.08	103.39	102.96	103.34	UK	4.49	0.08

Data as at 9:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The Fed minutes showed that the decision to keep rates steady at the last meeting was less unanimous than the decision itself suggested and that almost all Fed members said extra increases would probably be appropriate. The news spurred a sell off in equity markets and bonds.

Share Markets: Share markets in the US finished in the red. The Dow fell 0.4%, the S&P 500 declined 0.2% and the Nasdaq eased 0.2%.

Interest Rates: The US 2-year yield closed 1 basis point higher but had been higher after the Fed minutes revealed that the recent on-hold decision was a close one. The 10-year yield finished up 8 basis points, contributing to a steepening of the US 2-10-year curve, having earlier reached a 40-year low. Markets are almost fully priced for a rate hike from the Fed at its next meeting on 27 July.

The Australian 3-year government bond yield (futures) rose from 3.94% to 4.02%, while the 10-year yield rose from 3.96% to 4.06%. Interest-rate markets currently have a probability of 50% attached to a rate hike from the Reserve Bank next month.

Foreign Exchange: The US dollar firmed alongside the increase in yields. The USD traded between a low of 102.96 and a high of 103.39 and is currently sitting around that level at 103.37.

The Aussie dollar softened on the back of USD

strength. The AUD/USD pair fell from a high of 0.6698 to a low of 0.6653 and is currently trading at 0.6654.

Commodities: The prices of most key commodities retreated overnight. Oil inched higher.

Australia: There were no major economic data releases yesterday.

China: The Caixin measures for the purchasing managers' index (PMI) fell for June but remained above the 50.0 level, indicating expansion should continue, but providing further evidence that the recovery is losing steam. The composite PMI fell from 55.6 in May to 52.5 in June and the services PMI fell from 57.1 in May to 53.9 in June.

Eurozone: The producer price index (PPI) fell 1.9% in May following a 3.2% fall in April. In annual terms, the PPI was down 1.5%, the weakest reading since November 2020.

United States: The minutes from the Fed's June meeting revealed that the decision to 'skip' a rate hike wasn't as 'unanimous' as initially thought. The minutes showed that while all thought it was "appropriate or acceptable" to keep rates unchanged, some would have supported a 25-basis point hike instead. Almost all policymakers agreed that more tightening will likely be needed this year with consensus among voters that another hike would likely come in July. The minutes paint a

picture of an increasingly divided committee as it becomes more difficult to navigate the pace and intensity of policy moves.

Today's key data and events:

AU Trade Bal. May exp \$11.0bn prev \$11.2bn (11:30am)

EZ Retail Sales May exp 0.2% prev 0.0% (7pm)

US Challenger Job Cuts Jun y/y prev 286.7% (9:30pm)

US ADP Employment Change Jun exp 225k prev 278k
(10:15pm)

US Trade May exp -\$69.0bn prev -\$74.6bn (10:30pm)

US Initial Jobless Claims Jul 1 exp 245k prev 239k
(10:30pm)

US JOLTS Job Openings May 9895k prev 10103k (12am)

US ISM Services Index Jun exp 51.2 prev 50.3 (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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