Morning Report

Tuesday, 9 May 2023

Equities (close & % change)		
S&P/ASX 200	7,276	0.8%
US Dow Jones	33,619	-0.2%
Japan Nikkei	28,950	-0.7%
China Shanghai	3,559	1.8%
German DAX	15,953	-0.1%
UK FTSE100	7,778	1.0%
Commodities (close & change)*		
CRB Index	264.0	2.4
Gold	2,021.19	0.0
Copper	8,566.75	85.4
Oil (WTI futures)	73.16	1.8
Coal (thermal)	168.50	0.0
Coal (coking)	244.67	0.0
Iron Ore	104.40	-1.1

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	3.47		0.07	
3 yr bond	3.11		0.06	
3 mth bill rate	3.90		0.01	
SPI 200	7,263.0		-8	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	60.7	-	-	60.7
AUD/USD	0.6751	0.6804	0.6740	0.6781
AUD/JPY	91.04	91.88	90.93	91.59
AUD/GBP	0.5344	0.5379	0.5337	0.5373
AUD/NZD	1.0726	1.0738	1.0681	1.0688
AUD/EUR	0.6127	0.6169	0.6115	0.6161
AUD/CNH	4.6725	4.7082	4.6663	4.6922
USD Index	101.30	101.42	101.04	101.39

Interest rates (close & change)		
Australia		
90 day BBSW	3.88	0.00
2 year bond	3.19	0.10
3 year bond	3.07	0.11
3 year swap	3.52	0.02
10 year bond	3.40	0.08
United States		
3-month T Bill	5.07	-0.02
2 year bond	4.00	0.09
10 year bond	3.51	0.07
Other (10 year yields)		
Germany	2.32	0.03
Japan	0.42	0.00
UK	3.78	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: Markets continued to digest Friday's stronger-than-expected US data, fostering a further lift in US bond yields and weighing on global equities. Locally, the market is preparing for the Federal Treasurer's Budget; a budget surplus for 2022-23 has been confirmed by the government and a cost-of-living package is likely to be the centre of attention.

Share Markets: US share markets fluctuated overnight as investors continued to digest the strong US jobs data from Friday and what it means for the Fed funds outlook. The Dow closed slightly lower (-0.2%) whilst the S&P 500 and Nasdaq edged higher (by 0.1% and 0.2%, respectively).

Interest Rates: The US 2-year treasury yield rose from 9 basis points to 4.00%, while the 10-year yield increased 7 basis points to 3.51%. The lift in bond yields continued to be underpinned by the stronger-than-expected US jobs data published on Friday.

Interest-rate markets currently price the Fed funds rate, currently at a midpoint of 5.125% to be only 2 basis points higher at the next Fed meeting on 15 June. By the end of this year, markets expect the fed funds rate to be 60 basis points lower (reflecting a rate-cutting cycle being priced).

Foreign Exchange: The AUD/USD barely moved in trade overnight – the trading range was just 20 pips wide. Indeed, since 27 February – so for more than two months now – the AUD/USD has been stuck in a relatively narrow trading range of 0.6565 and 0.6806. FX traders seem unprepared to take the AUD below 0.6500 and the AUD is finding it hard to break the topside with Australian-US rate spreads not favouring Australia. In the near term, we can't see what would shake the AUD/USD out of this trading range.

In other currencies, EUR/USD fell from a high of 1.1054 to nearly 1.1000, as weak German data suggested a recession could be likely for Europe's largest economy. AUD/EUR continued to trend higher to an overnight high of 0.6235 – the highest since April 20, and well off its recent low point of 0.5959 on April 26.

Commodities: Commodities recorded widespread gains overnight, including oil.

Australia: Federal Treasurer hands down the Budget tonight. He has confirmed this morning that 2022-23 is a budget surplus of $4 billion. It is the first surplus in 15 years (since 2007-08).

Our leading Budget expert, Westpac Business Bank's Senior Economist Pat Bustamante, flagged a surplus was likely very early on back on April 27th.

The surplus has been driven by a lift in nominal economic activity, which has helped deliver higher tax revenues from low unemployment, bracket creep, higher commodity prices and a sharp recovery in net overseas arrivals.

Jim Chalmers has a difficult budget to frame because there are mounting pressures pulling the public purse in opposite directions.

On the one hand, Chalmers needs to ensure his budget does not add fuel to the inflation fire just as it's showing some early signs of dying down. Inflation peaked at 7.8% in the December quarter of last year and has stepped down to 7.0% but still has a way to go to the RBA's target of 2-3% per annum.

On the other hand, there are vulnerable households facing challenges from the higher cost of living, which adds pressure on Chalmers to announce spending for households. Household incomes have gone backwards at a record pace due to high inflation, rising mortgage rates and accelerating rents. The Government has flagged that it will provide a highly targeted $14.6 billion cost-of-living package. We await to see more specific details and how the package fits in with the broader fiscal strategy. We await to see specific details and how the package fits in with the broader fiscal strategy. While it may be appropriate to provide vulnerable Australians with cost-of-living support, untargeted spending risks adding to inflationary pressures.

In data published yesterday, business conditions declined by 2 points to +14 index points in April, but remained well above the long-run average. This was the third consecutive monthly decline in conditions which are now well off the peaks recorded late last year (+25 in September).

Business confidence increased by 1 point but remained subdued at 0 index points – suggesting that there is an equal number of optimists and pessimists. Confidence bounced back in the wholesale sector, with smaller gains recorded in finance, business & property, and retail.

Quarterly growth in final product prices and retail prices continued to ease. Final product prices grew by 1.1% in quarterly terms (from 1.3% in March), and retail prices grew by 1.4% (from 1.7% last month).

This occurred despite quarterly growth in some costs accelerating. Growth in labour costs were unchanged from 1.9%, while growth in purchase costs increased to 2.3% (from 1.9%).

This could suggest that sellers are no longer able to fully pass on higher costs to consumers or that businesses are lowing prices to boost demand. The recent slowdown in spending could mean that businesses have become more concerned with market share than profit margins.

New residential dwelling approvals edged down 0.1% in March following large swings through much of 2022 and 2023. Approvals are down 46% from their peak in March 2021 and are running at their slowest pace since May 2012 on a three-month moving average basis.

Demand for new construction is being hampered by disruptions in the building industry, increasing costs, rising interest rates and lower dwelling prices. These headwinds are unlikely to subside quickly. However, an increase in rents and surging migration may lure more projects into the pipeline as headwinds stabilise and rental yields become more attractive.

Delays and longer build times means there remains a large pipeline of residential building work yet to be finished. This is a legacy of the huge run-up in approvals over 2020 and 2021. However, a broad downswing in new approvals raises questions about the volume of activity once the existing backlog of projects is worked through.

Eurozone: German industrial production sank by the most in a year — raising the risk that Europe's largest economy has slipped into recession. Output dropped 3.4% in March, more than the 1.5% consensus decline predicted in surveys. The decrease was especially pronounced in the automotive sector.

United States: US banks reported tighter lending standards and weaker demand for commercial and industrial loans in the first quarter, the Fed's Senior Loan Officer Opinion Survey showed, extending a trend that began before recent financial sector stress. The proportion of banks tightening terms on loans for medium and large businesses rose to 46% from 44.8% in the fourth quarter of 2022.

Today's key data and events:

AU Consumer Confidence May prev 85.8 (11:30am)

AU Retail Sales Volumes Q1 exp -1.0% prev -0.2% (11:30am)

AU Federal Budget 2023-24 (7:30pm)

EZ Industrial Production Mar prev -1.5% (7pm)

US NFIB Small Bus Optimism Apr exp 89.7 prev 90.1 (8pm)

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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