

Morning Report

Monday, 22 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,280	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	33,427	-0.3%	10 yr bond	3.63	0.03			90 day BBSW	3.93	0.01
Japan Nikkei	30,808	0.8%	3 yr bond	3.33	0.02			2 year bond	3.50	0.10
China Shanghai	3,442	-0.4%	3 mth bill rate	3.98	-0.01			3 year bond	3.32	0.11
German DAX	16,275	0.7%	SPI 200	7,289.0	-11			3 year swap	3.70	0.01
UK FTSE100	7,757	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.59	0.11
Commodities (close & change)*			TWI	60.7	-	-	60.7	United States		
CRB Index	262.1	0.5	AUD/USD	0.6622	0.6675	0.6617	0.6649	3-month T Bill	5.08	-0.02
Gold	1,977.81	20.3	AUD/JPY	91.83	92.36	91.48	91.75	2 year bond	4.27	0.01
Copper	8,234.00	77.5	AUD/GBP	0.5338	0.5364	0.5336	0.5341	10 year bond	3.67	0.03
Oil (WTI futures)	71.55	-0.3	AUD/NZD	1.0633	1.0638	1.0584	1.0599	Other (10 year yields)		
Coal (thermal)	158.50	4.5	AUD/EUR	0.6149	0.6173	0.6119	0.6152	Germany	2.43	-0.02
Coal (coking)	235.00	0.0	AUD/CNH	4.6700	4.6872	4.6668	4.6727	Japan	0.40	0.02
Iron Ore	105.00	-0.4	USD Index	103.51	103.62	103.00	103.19	UK	4.00	0.04

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 US debt ceiling X-date continues to hang over markets as negotiations stalled. Treasury Secretary Yellen said it's unlikely the US will be able to satisfy its debt obligations if a deal is not struck by mid-June. Uncertainty from the debt ceiling was partly offset by comments from Fed Chair Jerome Powell, which signalled a possible pause in rate hikes in June. US equities finished lower, while treasury yields edged higher, and the US dollar softened.

Share Markets: US equities closed lower on Friday. The S&P 500 was 0.1% lower, while the Dow Jones and the NASDAQ closed down 0.3% and 0.4%, respectively.

The ASX 200 was up 0.6% on Friday, led by healthcare and financials. Futures are pointing to a muted open this morning.

Interest Rates: The US 2-year treasury yield rose 1 basis point to 4.27%, while the 10-year yield lifted 3 basis points to 3.67%.

Interest rate markets are pricing just a 20% chance of another rate hike from the Fed by July. Rate cuts are fully priced by the end of the year.

The Australian 3-year government bond (futures) yield gained 2 basis points to 3.33%, while the 10-year (futures) yield rose 3 basis points to 3.63%.

Interest rate markets see virtually no chance of rate hike from the RBA in June but are pricing a 30%

probability of a 25-basis point hike by July. Rate cuts are not fully priced until 2024.

Foreign Exchange: The Aussie dollar firmed alongside a weaker US dollar. The AUD/USD pair rose from a low of 0.6617 to a high of 0.6675 and is currently trading around 0.6649. The Aussie remains firmly within its recent trading range since late-February.

The AUD/NZD pair was weaker as the New Zealand dollar outperformed. The pair fell to 1.0584, its lowest level since late-December, but it has since retraced slightly to trade around 1.0599.

The US dollar was broadly softer against a basket of major currencies. The DXY index ranged between a high of 103.62 and a low of 103.00 and was trading at around 103.19 at the time of writing.

Commodities: Oil and iron ore softened, while gold and copper firmed.

Australia: There were no major economic data releases on Friday.

Japan: The consumer price index (CPI) rose 3.5% over the year to April, up from 3.2% in March but meeting consensus expectations. Excluding food and energy, annual inflation accelerated to 4.1%, its highest level since September 1981. The strong result, whilst consistent with expectations, will add to calls for the Bank of Japan (BoJ) to unwind its expansionary policy settings.

New Zealand: The trade balance swung from deficit to surplus in April. The surplus settled at \$427m following a \$1.6b deficit in March. Exports increased in the month, while imports were softer as aggressive rate hikes weigh on demand.

United States: Federal Reserve Chair, Jerome Powell, said on Friday it is still unclear if interest rates will need to rise further. Powell stressed that central bank officials need to balance uncertainty about the lagged impact of past hikes and recent bank credit tightening with the fact that inflation is proving hard to control.

Powell also reiterated that the central bank would now make decisions "meeting by meeting," but also flagged that after a year of aggressive rate increases, officials "can afford to look at the data and the evolving outlook to make careful assessments". It was noted that "the risks of doing too much or doing too little are becoming more balanced and our policy adjusted to reflect that", suggesting we could be nearing the end of the Fed's tightening cycle.

Neel Kashkari, head of the Minneapolis Fed branch, also supported the need for the Fed to assess the effects of past hikes and the inflation outlook, adding that he may support a pause in June.

Debt ceiling negotiations are set to continue today following President Biden's return from the G7 summit in Japan. Treasury Secretary, Janet Yellen, said the government will run out of funds to meet its ongoing liabilities by mid-June. Yellen said "my assessment is that the odds of reaching June 15 while being able to pay all our bills is quite low".

Today's key data and events:

EZ Cons. Confidence May Prel. exp -16.9 prev -17.5 (12am)

JN Machinery Orders Mar exp 0.4% prev -4.5% (9:50am)

UK Rightmove House Prices May prev 0.2% (9:01am)

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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