

Morning Report

Friday, 23 June 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,195	-1.6%			Last	Overnight Chg		Australia		
US Dow Jones	33,947	0.0%	10 yr bond	4.01		0.03	90 day BBSW	4.28	0.00	
Japan Nikkei	33,265	-0.9%	3 yr bond	3.96		0.04	2 year bond	4.14	0.03	
China Shanghai	3,352	-1.3%	3 mth bill rate	4.62		0.02	3 year bond	3.97	0.03	
German DAX	15,988	-0.2%	SPI 200	7,145.0		-7	3 year swap	4.32	0.01	
UK FTSE100	7,502	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.98	-0.01
Commodities (close & change)*			TWI	62.6	-	-	62.6	United States		
CRB Index	265.7	-4.9	AUD/USD	0.6795	0.6806	0.6745	0.6757	3-month T Bill	5.14	0.00
Gold	1,914.01	-18.5	AUD/JPY	96.39	96.76	95.78	96.67	2 year bond	4.79	0.08
Copper	8,615.25	64.0	AUD/GBP	0.5322	0.5330	0.5291	0.5301	10 year bond	3.79	0.08
Oil (WTI futures)	69.51	-3.0	AUD/NZD	1.0954	1.0961	1.0905	1.0936	Other (10 year yields)		
Coal (thermal)	141.50	4.7	AUD/EUR	0.6187	0.6191	0.6151	0.6167	Germany	2.49	0.06
Coal (coking)	231.00	0.0	AUD/CNH	4.8774	4.8841	4.8547	4.8632	Japan	0.38	0.00
Iron Ore	111.05	-0.6	USD Index	102.03	102.47	101.92	102.40	UK	4.37	-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: There were several central banks that increased their policy interest rates overnight. The Bank of England hiked by a larger than expected 50 basis points to 5.0%. The Norges Bank (Norway) also hiked by 50 basis points to 3.75%, and the Swiss National Bank hiked 25 basis points to 1.75%. All three central banks indicated that further tightening of policy was likely to be required to bring inflation down to target. This sentiment was echoed by Fed Chair Powell during his second day of congressional testimony.

On the back of these moves, bond yields increased. US equities were generally higher, in contrast to the falls recorded in Europe and elsewhere. The US dollar advanced as there was a flight to quality in response to the growing uncertainty over the global economic outlook.

Share Markets: US equities snapped a three-day losing streak as investors digested Fed Chair Powell second day of congressional testimony. The S&P 500 rose 0.4% led by consumer discretionary and communication services. The tech-heavy Nasdaq was 1.0% higher, with Amazon.com Inc. and Microsoft Corp. adding the most to the gains. In contrast, the Dow Jones was unchanged.

In Europe there were some significant falls recorded as central banks hiked rates overnight and signalled there was likely to be more to come. The FTSE 100

finished 0.8% lower, the German DAX was down 0.2% and the Euro Stoxx 50 was down 0.4%.

The ASX 200 declined for the second consecutive day, falling by 1.6% - the biggest one-day loss since 31 May. Materials stocks led the market lower, with all sectors finishing the day in the red. Futures are pointing to a positive opening today.

Interest Rates: Treasury yields finished higher across the curve. The 2-year treasury yield increased by 8 basis points to 4.78%, while the 10-year yield also increased by 8 basis points to 3.79%.

Interest rate markets are pricing a 75% chance of a 25-basis point hike from the Fed in July.

The Australian 3-year bond (futures) yield increased by 4 basis points to 3.96%. The 10-year (futures) yield increased by 3 basis points to 3.96%.

Markets are pricing a 40% chance of a 25-basis point hike in July.

Foreign Exchange: The US dollar index advanced on the back of the heightened uncertainty. The US Dollar index traded between a low of 101.92 and a high of 102.47, before closing 102.40.

The Aussie dollar was volatile, falling sharply before receiving some support at the 0.675 mark. In late trade, the Aussie broke that resistance to reach a low of 0.6745 during the New York session. It remains near this low at the time of writing, at

0.6757.

Commodities: Commodities were generally lower led by gold, oil and iron ore. Copper and coal were higher.

Australia: There was no major economic data out yesterday.

United Kingdom: The Bank of England (BoE) increased the policy interest rate by an unexpected 50 basis points, to 5.0% - the highest level in 15 years. Markets had priced in only a 35% chance of a 50-basis point hike, with most economists anticipating a quarter point.

BoE Governor, Andrew Bailey, said "If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required." The BoE Governor added "bringing inflation down is our absolute priority. The MPC will do what is necessary to return inflation to the 2% target."

New Zealand: The trade surplus narrowed to NZD 46 million in May, from NZD 148 million a year ago. Imports jumped by 4.4% over the year to the month of May, driven by Aircraft and parts; Optical, medical, and measuring equipment; and Mechanical machinery and equipment. Exports rose by 2.8% over the year to the month of May, driven by Milk powder, butter, and cheese; Fruit; and Fish, crustaceans, and molluscs.

United States: At the Senate Banking Committee, Fed Chair Powell reiterated that "it will be appropriate to raise rates again this year, and perhaps twice." Powell also noted "we are committed to getting inflation under control and a strong majority of the committee feels that we're close, but there's a little further to go with rate hikes."

There were 264k new claims for jobless benefits in the week ended 17 June, in line with the outcome in the previous week and slightly above the 259k the market was expecting.

The Chicago Fed National Activity Index decreased to -0.15 in May from an upwardly revised 0.14 in April. Production, employment and sales, orders and inventories were the main contributors to the decline.

The current account deficit was \$219 billion in the March quarter, higher than the upwardly revised \$216 billion deficit recorded in the December quarter. The international trade (goods and services) deficit decreased to \$201 billion from \$213 billion, due to a rise in exports of medicinal, dental,

and pharmaceutical products.

The Kansas City Fed's Manufacturing Production index fell to -10 in June, from -2 in May. It is the third consecutive month the index has been in negative territory. The number of employees fell to its lowest in three years, while a deterioration was also recorded for the volume of shipments, inventories of finished goods and inventories of input materials.

Today's key data and events:

EZ Markit Services PMI Jun Prel. (6pm)
 EZ Markit Mfg. PMI Jun Prel. (6pm)
 JN CPI May y/y prev 3.5% (9:30am)
 JN Nikkei PMI Mfg Jun Prel. prev 50.6 (10:30am)
 JN Nikkei Services PMI Jun Prel. (10:30am)
 UK GfK Cons. Sentiment Jun prev -27 (9:01am)
 UK Retail Sales May prev 0.5% (4pm)
 UK Markit Mfg PMI Jun Prel. (6:30pm)
 UK Markit Services PMI Jun Prel. (6:30pm)
 US Markit Manufacturing PMI Jun Prel. (11:45pm)
 US Markit Services PMI Jun Prel. (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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