

Morning Report

Tuesday, 23 May 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,263	-0.2%			Last	Overnight Chg		Australia		
US Dow Jones	33,287	-0.4%	10 yr bond	3.62		0.03	90 day BBSW	3.92	-0.01	
Japan Nikkei	31,087	0.9%	3 yr bond	3.32		0.02	2 year bond	3.48	-0.02	
China Shanghai	3,455	0.4%	3 mth bill rate	3.97		0.01	3 year bond	3.31	-0.01	
German DAX	16,224	-0.3%	SPI 200	7,288.0		5	3 year swap	3.71	-0.01	
UK FTSE100	7,771	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.59	0.00
Commodities (close & change)*			TWI	60.8	-	-	60.8	United States		
CRB Index	261.6	-0.5	AUD/USD	0.6649	0.6668	0.6627	0.6650	3-month T Bill	5.09	-0.02
Gold	1,971.86	-6.0	AUD/JPY	91.75	92.23	91.38	92.16	2 year bond	4.32	0.05
Copper	8,234.00	77.5	AUD/GBP	0.5341	0.5353	0.5327	0.5348	10 year bond	3.71	0.04
Oil (WTI futures)	72.05	0.4	AUD/NZD	1.0599	1.0612	1.0560	1.0579	Other (10 year yields)		
Coal (thermal)	160.75	2.3	AUD/EUR	0.6152	0.6159	0.6131	0.6151	Germany	2.46	0.03
Coal (coking)	235.00	0.0	AUD/CNH	4.6725	4.6900	4.6653	4.6868	Japan	0.39	-0.01
Iron Ore	102.00	-0.1	USD Index	103.11	103.37	102.96	103.22	UK	4.06	0.07

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: A quiet day in regard to economic data kept market participants focussed on comments from Federal Reserve members and news around debt ceiling talks.

A range of Fed members spoke, with Bullard and Kashkari remaining hawkish and pushing for more hikes this year. In contrast, Daly, Bostic, and Barkin struck a more balanced tone and spoke of the need to collect more data before being confident of whether further hikes are needed in June.

Markets are also focussing on debt ceiling developments, as US President Joe Biden and House Speaker Kevin McCarthy are due to meet to discuss ways to avert a US default. McCarthy called staff-level discussions productive and emphasised the need to get a deal done this week. US Treasury Secretary Janet Yellen warned that it was “highly likely” that the Treasury would run of cash in early June.

Bond yields ended higher on the day, share markets were mixed, and the US dollar ended slightly higher against major currencies.

Share Markets: Share market indices were mixed on the day. The S&P 500 ended flat (0.0%) while the Nasdaq rose 0.5% on the day. The Dow Jones bucked the trend and fell 0.4%.

The ASX 200 fell 0.2% yesterday. Futures are pointing to a higher open today.

Interest Rates: Bond yields rose amid comments from a few Fed members referring to the need for additional interest rate hikes. The US 2-year bond yield rose 5 basis points, to 4.32%. The 10-year yield was 4 basis points higher, at 3.71%. Interest rate markets are pricing in around a 20% chance of a 25-basis-point hike at the June meeting and around 14 basis points of additional hikes over the next two meetings. Markets continue to price cuts in the second half of 2023, with around 39 basis points of cuts priced to the end of the year.

The 3-year Australian government bond yield (futures) rose 2 basis points, to 3.32%. The 10-year government bond yield (futures) was 3 basis points higher, at 3.62%. Interest-rate markets continue to price a pause from the RBA at their June meeting. Beyond that, markets have a peak cash rate of 3.97% priced by September and cuts are not priced until 2024.

Foreign Exchange: The US dollar ended higher on the day after trading in a narrow range. The DXY Index rose from a low of 102.96 to a high of 103.37, before retracing slightly to 103.22. The AUD/USD pair also traded in a relatively narrow range on little economic news. The pair traded between a low of 0.6627 and a high of 0.6668. It was trading around 0.6650 at the time of writing.

Commodities: Gold and iron ore pulled back, while

copper, coal and oil rose.

Australia: There were no major economic data releases yesterday.

Japan: Core machinery orders declined for the second consecutive month in March. Core orders slipped 3.9% in the month, following a -4.5% outcome in February. The result compared to expectations of a 0.4% gain. The monthly result led to the annual pace falling to -3.5% over the year to March, from 9.8% in February. This was the first time annual growth was negative since December 2022. The annual outcome fell short of the 1.3% gain expected by consensus.

Monthly falls were recorded across all private sub-categories. Private non-manufacturing orders plunged 12.6% in the month, or -4.5% when excluding volatile orders. Private manufacturing orders were 2.4% weaker.

Core machinery orders exclude volatile items such as ships and are a leading indicator for capital spending.

Eurozone: Consumer confidence continued to eek slightly higher while also remaining deeply entrenched in negative territory. Confidence rose to a 15-month high of -17.4 in May, a touch above the -17.5 outcome in April. This was below consensus expectations of -16.8. Confidence has continued to gradually lift since bottoming at -28.7 in September 2022. However, it remains deeply entrenched in negative territory and well below the cycle high of -2.2 in June 2021.

United Kingdom: House prices rose 1.8% in May, to be 1.5% higher over the year, as reported by Rightmove. The outcome followed a 0.2% monthly and 1.7% annual rise in the previous month. The monthly pace of gains lifted to above 1% for the first time since May 2022.

The May increase resulted in the average property asking price rising to a record high of £372,894.

In London, prices rose 2.8% in May, to be 1.1% higher over the year. The average property asking price in London is £696,477.

United States: A range of Federal Reserve members spoke overnight, with some continuing to strike a hawkish tone while others were less hawkish in their comments. St. Louis Fed President James Bullard, who is a non-voter this year, remained hawkish in his statements and favoured another two 25-basis-point hikes to control inflation. He stated that he thinks "we're going to have to grind higher with the policy rate in order to put enough

downward pressure on inflation and to return inflation to target in a timely manner."

Minneapolis Fed President Neel Kashkari feels that a June rate hike remains a close call amid services inflation that seems "pretty darn entrenched". While he was open to the idea of moving "a little bit more slowly from here", his comments were clear that he didn't think a pause necessarily meant that the Fed would stop hiking. Indeed, he added that "it may be that we have to go north of 6%" to get back to the 2% inflation target.

Other members, including Mary Daly, Raphael Bostic, and Thomas Barkin were more circumspect about hiking again in June and some favoured a pause at the next meeting. Barkin looked to keep his options open ahead of the meeting, stating that he's "not going to pre-judge June." Daly said it was too soon to say whether rates would need to go higher in June, stating that "we have to be extremely data-dependent, and that's why, even three weeks in advance of the meeting, our next meeting, it's still a lot of time to collect information before we make a decision about what to do in June or what to do for the rest of the year".

Bostic discussed the lags of monetary policy and favoured a pause at the next meeting. He stated that "policy works with a lag." In addition to adding "right now, absent a big change, I think I will be comfortable saying let's just look and see how things play out".

Key data and events table on next page.

Today's key data and events:

JN Nikkei Mfg PMI May Prel. prev 49.5 (10:30am)

JN Nikkei Services PMI May Prel. prev 55.4 (10:30am)

UK Public Sect. Borrowing Apr exp £15.6bn prev £20.7bn
(4pm)

AU RBA's Jacobs Speech (5:10pm)

EZ Markit Services PMI May Prel. exp 55.5 prev 56.2 (6pm)

EZ Markit Mfg PMI May Prel. exp 46.0 prev 45.8 (6pm)

UK Markit Mfg PMI May Prel. exp 48.0 prev 47.8 (6:30pm)

UK Markit Services PMI May Prel. exp 55.3 prev 55.9
(6:30pm)

US Markit Mfg PMI May Prel. exp 50.0 prev 50.2
(11:45pm)

US Markit Services PMI May Prel. exp 52.5 prev 53.6
(11:45pm)

US New Home Sales Apr exp -2.9% prev 9.6% (12am)

US Richmond Fed Index May exp -8 prev -10 (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.

Jarek Kowcza, Senior Economist

Ph: +61 481 476 436

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist

Jarek Kowcza
jarek.kowcza@banksa.com.au
+ 61 481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

Economist

Jameson Coombs
jameson.coombs@banksa.com.au
+61 401 102 789

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