

Morning Report

Monday, 25 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,069	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,964	-0.3%	10 yr bond	4.33				90 day BBSW	4.15	0.01
Japan Nikkei	32,402	-0.5%	3 yr bond	4.02				2 year bond	4.05	-0.01
China Shanghai	3,284	1.5%	3 mth bill rate	4.31				3 year bond	4.03	-0.01
German DAX	15,557	-0.1%	SPI 200	7,086.0				3 year swap	4.21	0.00
UK FTSE100	7,684	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.34	0.04
Commodities (close & change)*			TWI	60.4	-	-	60.4	United States		
CRB Index	286.0	0.1	AUD/USD	0.6415	0.6465	0.6404	0.6442	3-month T Bill	5.31	-0.01
Gold	1,925.23	5.2	AUD/JPY	94.67	95.83	94.54	95.54	2 year bond	5.11	-0.03
Copper	8,198.75	29.0	AUD/GBP	0.5218	0.5271	0.5213	0.5264	10 year bond	4.43	-0.06
Oil (WTI futures)	90.03	0.4	AUD/NZD	1.0818	1.0828	1.0788	1.0807	Other (10 year yields)		
Coal (thermal)	162.40	-1.6	AUD/EUR	0.6018	0.6071	0.6011	0.6052	Germany	2.74	0.00
Coal (coking)	300.00	0.0	AUD/CNH	4.6923	4.7168	4.6834	4.7014	Japan	0.75	0.00
Iron Ore	119.50	-1.7	USD Index	105.39	105.78	105.32	105.58	UK	4.25	-0.06

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: US bond yields retreated a tad from their multi-year highs and US share markets fell.

Share Markets: The Dow lost 0.3%, the S&P 500 declined 0.2% and the Nasdaq lost 0.1%.

Interest Rates: The US 2-year fell further from the 17-year high of 5.20% recorded during intraday trading on Thursday. On Friday, the 2-year yield closed 3 basis points weaker to 5.11%. The US 10-year yield scaled to a fresh 16-year high of 4.51% but closed 6 basis points weaker at 4.43%.

Interest-rate markets are attaching a probability of 21% to a rate hike from the US Federal Reserve in November when they next meet.

Foreign Exchange: One of the biggest moves on Friday was the Japanese yen after the Bank of Japan (BoJ) policy meeting. USD/JPY rose rapidly from a low of 147.32 to 148.42 and AUD/JPY lifted from around 94.55 towards 95.85.

Meanwhile, AUD/USD remained in a narrow trading range of 0.6400 to 0.6465. There appears little on the near-term horizon to shake the AUD out of its recent trading ranges.

Commodities: Oil and gold ended firmer.

Australia: There were no major data releases on Friday.

Eurozone: The chief economist of the European Central Bank (ECB) Lane said that “future decisions

will ensure that the key ECB interest rates will be set at a sufficiently restrictive level for as long as necessary.” Lane added that the high level of two-sided uncertainty around the baseline means the ECB will remain data dependent in determining the appropriate level of restrictiveness in our monetary stance. He also said that the most recent rate hike would help to shield the economy from upside shocks to inflation.

Japan: BoJ Governor Kazuo Ueda said he has “yet to foresee” inflation settling at the target level of 2%, deferring market expectations that the central bank was nearing an exit from decades of ultra-loose monetary policy. Ueda’s comments on Friday followed the BoJ’s announcement that it would maintain its easing stance, including the world’s only negative interest rates, at the conclusion of a two-day monetary policy committee meeting. While the decision was widely anticipated, markets were closely watching Ueda’s comments on inflation as Japan confronts persistent rising prices for the first time in decades.

Official data released earlier on Friday showed consumer price growth had exceeded the 2% target for 17 straight months. The annual headline inflation rate was 3.2% in August, after an outcome of 3.3% in July. The core inflation rate, which excludes food and energy, stayed at an annual pace of 4.3% in the same month.

United Kingdom: The purchasing managers' index (PMI) slipped further into recessionary territory in September, to 46.8, suggesting output could contract modestly in the third quarter.

United States: The manufacturing and services PMIs improved in August whilst the composite index fell a tad. The manufacturing PMI rose from 47.9 in July to 48.9 in August, beating consensus expectations. The services PMI did not beat consensus forecasts but rose 0.3 of a point to 50.5. Meanwhile the composite PMI fell from 50.2 in July to 50.1 in August.

Two Federal Reserve officials said at least one more rate hike is possible while emphasising the higher-for-longer mantra. Susan Collins called further tightening "certainly not off the table" and Governor Michelle Bowman signalled that more than one increase will probably be required.

House Republicans are eyeing a stop-gap funding measure ranging from 14 to 60 days as they race to get enough GOP support before the government shuts down October 1. The revised proposal would cut domestic spending temporarily by 27% and include an immigration and border security bill. The Senate may unveil its own bipartisan bill as soon as Tuesday.

Today's key data and events:

US Chicago Fed National Index Aug exp 0.05 prev 0.12
(10:30pm)

US Dallas Fed Mfg Index Sep exp -13 prev -17.2
(12:30am)

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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