

Morning Report

Wednesday, 26 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,340	0.5%			Last	Overnight Chg		Australia		
US Dow Jones	35,438	0.1%	10 yr bond	4.06			0.03	90 day BBSW	4.35	0.00
Japan Nikkei	32,683	-0.1%	3 yr bond	4.00			0.04	2 year bond	4.03	0.05
China Shanghai	3,388	2.1%	3 mth bill rate	4.44			0.00	3 year bond	3.97	0.05
German DAX	16,212	0.1%	SPI 200	7,313.0			19	3 year swap	4.34	0.00
UK FTSE100	7,692	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.03	0.03
Commodities (close & change)*			TWI	61.9	-	-	61.9	United States		
CRB Index	281.9	1.8	AUD/USD	0.6740	0.6795	0.6725	0.6790	3-month T Bill	5.25	0.00
Gold	1,964.96	10.2	AUD/JPY	95.34	95.90	95.18	95.71	2 year bond	4.87	-0.04
Copper	8,664.50	155.5	AUD/GBP	0.5256	0.5282	0.5250	0.5263	10 year bond	3.88	0.01
Oil (WTI futures)	79.63	0.9	AUD/NZD	1.0860	1.0934	1.0855	1.0911	Other (10 year yields)		
Coal (thermal)	151.10	5.2	AUD/EUR	0.6091	0.6150	0.6079	0.6141	Germany	2.43	0.00
Coal (coking)	237.50	-0.2	AUD/CNH	4.8439	4.8492	4.8138	4.8461	Japan	0.47	0.00
Iron Ore	114.70	-0.1	USD Index	101.42	101.65	101.19	101.28	UK	4.27	0.01

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: Equities rallied and US bond yields rose after stronger-than-expected US consumer confidence data and the International Monetary Fund (IMF) upgraded world growth forecasts. The Aussie dollar received a small boost after China's policymakers signalled further policy support was likely.

Share Markets: US share markets gained ground after strong US consumer confidence data was printed. The S&P 500 share market index hit its highest since April 2022. At the close, it was up 0.3% whilst the Nasdaq lifted 0.6% and the Dow edged up 0.1%.

Interest Rates: The US 2-year treasury yield rose from 4.85% to 4.90%, while the 10-year yield rose from 3.87% to 3.92%. Markets currently price the Fed funds rate, currently 5.125% (mid), to be 26 basis points higher at the next meeting on 27 July, and another 11 basis points higher by November.

The Australian 3-year government bond yield (futures) rose from 3.94% to 4.02% and the 10-year yield lifted 8 basis points to 4.08%. Markets currently price the Reserve Bank's cash rate, currently at 4.10%, to be 14 basis points higher at the next meeting on 1 August, and another 26 basis points higher by February.

Foreign Exchange: The US dollar slipped after Chinese policymakers signalled renewed support for

the nation's struggling economy. The Australian dollar led the gains among the Group of 10 currencies, rising from around 0.6725 to 0.6795 – remaining within recent ranges. In other key currency news, the Swiss franc posted its biggest daily advance against the euro in ten months after a European Central Bank survey showed ailing demand for corporate loans.

Commodities: Oil held gains in light trading, helped by tighter supplies.

Australia: There were no major economic data releases yesterday.

China: China's officials will likely keep cutting interest rates, speed up the issuance of infrastructure bonds and loosen more property policies after top leaders signalled fresh support for the economy is on the way. The ruling Communist Party's Politburo laid out a pro-growth tone at its key economic meeting this week that was "slightly more dovish" than markets expected.

Eurozone: The German IFO index eased to 87.3 in June, from 88.6 in May. The outcome was a tad under consensus forecasts. It is the third straight decline and suggests economic activity in Europe's largest economy continues to struggle.

Eurozone banks reported a sharper than expected fall in loan demand by businesses to the lowest level for 20 years, driven by higher rates and lower

investment financing needs. The European Central Bank's quarterly survey of banks also reported falls in demand from households for mortgages and other credit.

United States: The S&P CoreLogic house price measure for 20 cities lifted 1.0% in May and contracted by 1.7% in the year to May.

Consumer confidence advanced more than expected in July to a two-year high. The index lifted to 117.0, from 110.1 in June. Consensus expected an outcome of 112.0. Both the present situation at 160.0 (prior 155.3 - strongest since March 2020) and expectations at 88.2 (prior 88.0, revised from 79.3) components contributed to the rise. The report said a solid labour market and easing inflation supported confidence across age and earnings groups. Their index of price inflation continued to track lower.

The Richmond Fed manufacturing index fell to -9 in July, from -8 in June, and against consensus expectations for a result of -10. The report said regional manufacturing "remained sluggish in July", and both prices paid and received "decreased somewhat" and were expected to moderate over the next 12 months.

World: The IMF raised its outlook for the world economy this year, saying risks have eased in recent months after the US averted a default and officials staved off a banking crisis on both sides of the Atlantic. The fund now projects global GDP will expand 3.0% in 2023, up from 2.8%.

US economic growth is expected to be 1.8% this year, falling to 1.0% in 2024. Eurozone growth is expected to slow to 0.9% this year, before accelerating to 1.5% in 2024. China and Japan are expected to grow 5.2% and 2.4%, respectively, in 2023, and 4.5% and 1.0% in 2024.

Global inflation is expected to decline to 6.8% this year and 5.2% in 2024, with core seen falling more gradually.

Today's key data and events:

AU Consumer Price Index Q2 (11:30am)

Headline q/q exp 1.1% prev 1.4%

Headline y/y exp 6.3% prev 7.0%

Trimmed Mean q/q 1.1% exp prev 1.2%

Trimmed Mean y/y exp 6.0% prev 6.6%

EZ M3 Money Supply Jun y/y exp 0.9% prev 1.4% (6pm)

US New Home Sales Jun exp 725k prev 763k (12am)

US FOMC Decision exp 5.25-5.50% prev 5.00-5.25% (4am)

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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