

# Morning Report

Monday, 30 January 2023

| Equities (close & % change)              |          |       | Sydney Futures Exchange (last & change) |         |             |                      |         | Interest rates (close & change) |      |       |
|--|----------|-------|---|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200                              | 7,494    | 0.3%  |   |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |      |       |
| US Dow Jones                             | 33,978   | 0.1%  | 10 yr bond                              | 3.57    |             | 0.00                 |         | 90 day BBSW                     | 3.38 | 0.12  |
| Japan Nikkei                             | 27,383   | 0.1%  | 3 yr bond                               | 3.22    |             | 0.00                 |         | 2 year bond                     | 3.15 | 0.07  |
| China Shanghai                           | 3,422    | 0.8%  | 3 mth bill rate                         | 3.64    |             | 0.01                 |         | 3 year bond                     | 3.21 | 0.07  |
| German DAX                               | 15,150   | 0.1%  | SPI 200                                 | 7,450.0 |             | 12                   |         | 3 year swap                     | 3.65 | 0.01  |
| UK FTSE100                               | 7,765    | 0.1%  | FX Last 24 hrs                          | Open    | High        | Low                  | Current | 10 year bond                    | 3.56 | 0.06  |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                     | 63.0    | -           | -                    | 63.0    | <b>United States</b>            |      |       |
| CRB Index                                | 277.7    | -1.9  | AUD/USD                                 | 0.7117  | 0.7130      | 0.7082               | 0.7100  | 3-month T Bill                  | 4.55 | -0.01 |
| Gold                                     | 1,928.04 | -18.1 | AUD/JPY                                 | 92.69   | 92.70       | 92.03                | 92.03   | 2 year bond                     | 4.20 | 0.02  |
| Copper                                   | 9,255.74 | -64.8 | AUD/GBP                                 | 0.5733  | 0.5754      | 0.5729               | 0.5734  | 10 year bond                    | 3.50 | 0.01  |
| Oil (WTI futures)                        | 79.68    | -1.3  | AUD/NZD                                 | 1.0963  | 1.0970      | 1.0936               | 1.0956  | <b>Other (10 year yields)</b>   |      |       |
| Coal (thermal)                           | 257.50   | 6.2   | AUD/EUR                                 | 0.6534  | 0.6553      | 0.6524               | 0.6532  | Germany                         | 2.24 | 0.02  |
| Coal (coking)                            | 339.25   | 0.9   | AUD/CNH                                 | 4.7940  | 4.8165      | 4.7881               | 4.8036  | Japan                           | 0.49 | 0.00  |
| Iron Ore                                 | 126.60   | 0.2   | USD Index                               | 101.81  | 102.19      | 101.68               | 101.92  | UK                              | 3.32 | 0.01  |

Data as at 7:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** Key share markets and global bond yields rose on Friday night. US data showed some easing in inflation pressures.

Markets will be preparing for this week's meetings of the US Federal Reserve, Bank of England and European Central Bank.

The Reserve Bank meets early next week.

**Share Markets:** The key US share markets pushed higher on Friday night. The Dow rose 0.1%, the S&P 500 index added 0.3% and the Nasdaq rose 1.0%.

**Interest Rates:** US bond yields rose modestly across the curve ahead of a key US Federal Reserve meeting later this week where the Fed is widely expected to hike by 25 basis points.

The Australian 3-year government bond yield (futures) ranged between 3.20% and 3.24%, while the 10-year yield ranged between 3.55% and 3.60%. Interest-rate markets currently have a probability of nearly 80% attached to a rate hike of 25 basis on 7 February, peaking at 3.78% in July 2023.

**Foreign Exchange:** The AUD/USD tread in narrow range on Friday night, keeping mostly to 0.7080-0.7140. It reflects a consolidation of price gains after the AUD/USD rose from 0.6893 on January 19 to a high of 0.7142 on Friday night.

**Commodities:** The widely watched measure of commodities, the CRB index, fell on Friday. Gold and oil also dropped.

**Australia:** Growth in wholesale inflation pressures moderated in the December quarter. The producer prices index (PPI) rose by 0.7% last quarter, the smallest increase since June 2021. In annual terms producer prices increased by 5.8%, lower than the record pace of 6.4% recorded in the September quarter.

**China:** The Chinese central bank will extend the use of three monetary policy tools designed to encourage financial institutions to support green technologies and the logistics sector, the People's Bank of China (PBoC) said in a statement yesterday. The PBoC will continue to offer cheap funding until the end of 2024 to banks which lend to firms that are helping reduce carbon emissions. The policy tool was first adopted in November 2021. The bank's relending program for clean-coal use will be extended until the end of 2023.

**Europe:** The annual pace in the M3 measure of money supply continued to decelerate. In annual terms, money supply grew 4.1% in December, following growth of 4.8% in November and double-digit growth in early 2021.

**New Zealand:** Business confidence in January dropped to -52, from -70.2 in December.

**United States:** The University of Michigan's final measure of consumer sentiment edged up in January for a second consecutive month, reaching its highest level since April. The sentiment index

rose to 64.9 in January, from 59.7 in December, slightly up from its mid-month reading of 64.6. Consensus expected a result of 64.5.

January gains were driven by improving assessments of both personal finances and buying conditions for durable goods, supported by strong incomes and easing price pressures. Despite recent gains, confidence remains subdued by historical standards.

Inflation expectations fell slightly with the 1-year-ahead measure at 3.9% (preliminary was 4.0%) and the 5-10-years ahead gauge at 2.9% (prelim. was 3.0%).

Personal consumption expenditures excluding food and energy increased 4.4% from a year ago, down from the 4.7% reading in November and in line with consensus estimates. It was the slowest annual rate of increase since October 2021. In month-on-month terms, consumer spending slid 0.2% - the second consecutive decline.

Spending adjusted for inflation (or spending in real terms) dropped 0.3% in December. The drop was slightly worse than consensus estimates.

Meanwhile, personal income increased 0.2% for the month, as widely expected.

The personal consumption expenditure (PCE) deflator in headline terms rose 0.1% in December, matching the pace in January but a tad higher than consensus estimates that centred on a flat outcome. In year-on-year terms, the headline PCE deflator eased from 5.5% to 5.0% growth.

In core terms, the PCE deflator rose 0.3% in December, matching consensus forecasts. In annual terms, the measure slowed from 4.7% growth in November to 4.4% growth in December. This measure peaked in February 2022 but it has been volatile.

The Federal Reserve watches core PCE closely. Officially, the Fed says that it watches the headline number. But officials have said repeatedly that core PCE usually provides a better long-term indicator on where inflation is headed because it strips out prices that can be volatile over shorter time periods.

The pending home sales index, which measures contracts to buy existing homes increased 2.5% to 76.9 in December, according to the National Association of Realtors. It was the first rise in seven months, helped by a decline in mortgage rates. The gain was also unexpected because consensus had forecast a drop of 0.9% for the month. In year-on-

year terms, pending home sales decreased 33.8%.

The Kansas Fed services activity index fell to minus 11 in January, from an upwardly revised outcome of nil in December.

House of Representatives Speaker, Kevin McCarthy, will meet with Joe Biden on Wednesday to discuss raising the US debt ceiling and avoiding a sovereign default. McCarthy said that cuts to social security and Medicare are "off the table" but all discretionary spending including the defence budget should be reviewed for waste. He added that the US is not going to default.

#### Today's key data and events:

NZ Trade Balance Dec prev -NZ\$1.86bn (8:45am)

UK Lloyds Busin. Barometer Jan prev 17 (11:01am)

EZ Confidence Indicators Jan (9pm)

US Dallas Fed Mfg Index Jan exp -15 prev -18.8 (2:30am)

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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