Morning report

Bank of Melbourne

Wednesday, 9 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,311	0.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,314	-0.4%	10 yr bond	4.00		-0.02		90 day BBSW	4.18	-0.01
Japan Nikkei	32,377	0.4%	3 yr bond	3.72		0.00		2 year bond	3.78	-0.14
China Shanghai	3,418	-0.3%	3 mth bill rate	4.22		0.00		3 year bond	3.73	-0.15
German DAX	15,775	-1.1%	SPI 200	7,246.0		-5		3 year swap	4.02	0.00
UK FTSE100	7,527	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.02	-0.18
Commodities (close & change)*			TWI	60.5	-	-	60.5	**United States**		
CRB Index	279.2	0.0	AUD/USD	0.6572	0.6576	0.6497	0.6542	3-month T Bill	5.27	0.00
Gold	1,925.24	-17.7	AUD/JPY	93.65	93.98	92.90	93.79	2 year bond	4.75	-0.01
Copper	8,313.75	-135.3	AUD/GBP	0.5142	0.5144	0.5112	0.5133	10 year bond	4.02	-0.07
Oil (WTI futures)	82.76	-0.2	AUD/NZD	1.0770	1.0811	1.0754	1.0789	**Other (10 year yields)**		
Coal (thermal)	148.25	0.6	AUD/EUR	0.5975	0.5978	0.5931	0.5972	Germany	2.47	-0.13
Coal (coking)	248.00	1.3	AUD/CNH	4.7344	4.7368	4.7051	4.7339	Japan	0.61	-0.02
Iron Ore	100.35	0.1	USD Index	102.07	102.80	102.07	102.55	UK	4.39	-0.08

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: Safe-haven flows dominated market action overnight, after China's trade data yesterday and the downgrade by Moody's.

Share Markets: US share markets ended in the red. The Dow fell 0.5%, the S&P 500 declined 0.4% and the Nasdaq dropped 0.8%. The share prices of US banks declined after the downgrade by Moody's stoked fears about the US financial system.

Interest Rates: Safe-haven demand led to stronger demand for US government bonds, leading to falls of 1 basis point and 7 basis points for US 2-year and 10-year bond yields, respectively.

Foreign Exchange: The AUD/USD made a fresh 7-week low of 0.6497 before recovering some ground to near 0.6540. Safe-haven flows supported demand for the US dollar.

Commodities: Base metal prices fell after yesterday's Chinese trade data. Oil rose overnight amid escalations in the Russia-Ukraine War. US crude inventories added 4.07 million barrels last week and Saudi Arabia reaffirmed its commitment to supply cuts.

Australia: Key measures of business confidence and conditions remained resilient in July. Business confidence jumped 2.4 points to a 6-month high of 1.8 and conditions moved a tad lower but stayed above the long-run average at 9.8. It's consistent with our new quarterly business snapshot published last month, which underscored that in aggregate businesses are in a strong financial position heading into the next part of the economic cycle.

Capacity utilisation lifted from 83.6% in June to 84.5% in July – an elevated level and not far from the all-time high of 86.2%, suggesting the moderation in business credit growth should stay gradual in coming months.

Most interesting was what the business survey revealed about prices and costs. Growth in final prices appears to have re-accelerated – stepping up to a quarterly pace of 2.0% in July, from 1.0% in June – the monthly change was the biggest in the series (dating back to the late 1990s). Labour costs also accelerated to 3.7% in July, from 2.3% in the previous month.

The possible re-emergence of cost pressures deserves watching, especially if it turns into an underlying trend and shows up in other indicators. It possibly jeopardises the swap market's idea that the Reserve Bank rate-hiking cycle is done in this cycle.

The economic slowdown is being led by consumers tightening their belts. The entrenched pessimism of consumers is reflected in the outcomes of the latest Westpac-Melbourne Institute consumer survey. Confidence dipped 0.4% to 81.0 in August, around the average of the past 6 months and well under the 100.0 that separates the optimists from the pessimists.

China: Data yesterday showed exports fell by 14.5% in the year to July. Imports dropped by 12.4% over the same time period. The outcomes were worse than consensus forecasts. A slowdown in US and other major economies' growth has dragged down Chinese exports this year. Meanwhile, China's domestic demand has remained lacklustre.

United States: The US Federal Reserve's Patrick Harker said policymakers may be able to stop hiking, barring any economic surprises. He added that the federal funds rate would need to stay at the current elevated level for some time. Richmond's Federal Reserve President Thomas Barkin argued against pre-judging September's decision, saying officials should look at intervening labour and inflation numbers.

Federal Reserve data showed that credit card balances topped $1 trillion for the first time after rising by $45 billion last quarter. Delinquency rates are back to pre-Covid levels. Total household debt rose 0.1%.

The trade deficit contracted by $2.8 billion to $65.5 billion in June. Data for May was revised to show the trade gap narrowing to $68.3 billion instead of $69.0 billion as previously reported. The sharp narrowing in the trade deficit in June demonstrates businesses are cutting back on their purchases of foreign-made capital goods, resulting in imports falling by 1.0% to the lowest level in more than 1½ years. The decline in imports potentially signals a slowdown in business investment and overall domestic demand amid significant interest rate hikes from the Federal Reserve. Meanwhile, exports fell 0.1% in the month, continuing the downward trend as the global economic backdrop softens.

Today's key data and events:

NZ Card Spending Jul prev 0.9% (8:45am)

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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