

Tuesday, 19 September 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,230	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	34,624	0.0%	10 yr bond	4.20				90 day BBSW	4.12	-0.01
Japan Nikkei	33,533	1.1%	3 yr bond	3.88				2 year bond	3.93	0.07
China Shanghai	3,277	0.3%	3 mth bill rate	4.28				3 year bond	3.91	0.08
German DAX	15,727	-1.0%	SPI 200	7,214.0				3 year swap	4.12	0.00
UK FTSE100	7,653	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.21	0.11
Commodities (close & change)*			TWI	60.7	-	-	60.7	United States		
CRB Index	289.4	-0.2	AUD/USD	0.6432	0.6449	0.6417	0.6438	3-month T Bill	5.30	0.00
Gold	1,933.84	9.9	AUD/JPY	95.04	95.26	94.79	95.02	2 year bond	5.05	0.02
Copper	8,352.00	-23.8	AUD/GBP	0.5192	0.5204	0.5186	0.5196	10 year bond	4.30	-0.03
Oil (WTI futures)	91.48	0.7	AUD/NZD	1.0899	1.0910	1.0877	1.0883	Other (10 year yields)		
Coal (thermal)	160.75	0.3	AUD/EUR	0.6031	0.6047	0.6018	0.6021	Germany	2.71	0.03
Coal (coking)	300.00	0.0	AUD/CNH	4.6800	4.7011	4.6797	4.6943	Japan	0.72	0.00
Iron Ore	121.15	-0.6	USD Index	105.28	105.36	105.02	105.07	UK	4.39	0.03

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: Markets were largely in a holding pattern as investors await key central bank decisions and guidance from the US Fed, the Bank of England, the Bank of Japan, and other central banks later this week. US equities were basically flat, closing not far from where they opened. Short-term bond yields moved higher, while long-term yields slipped. The US dollar fell slightly against major currencies, while the Aussie was broadly unchanged.

Share Markets: Equity markets ended largely unchanged as investors await the Fed decision later this week. The S&P 500 closed only 3 points above where it opened – a 0.1% gain for the day. Moves for the Nasdaq and Dow Jones were even more muted, as both indices finished flat (less than 0.1% higher).

The ASX 200 lost 0.7% yesterday. All 11 sectors were lower on the day. IT, energy, and communication services were the worst performers, each losing more than 1%. Futures are pointing to a weak open this morning.

Interest Rates: The yield curve flattened as short-term rates rose while longer-term rates fell. The 2-year treasury yield closed 2 basis points higher, at 5.05%. The 10-year yield was 3 basis points lower, at 4.30%. The move resulted in the 2-10-year bond yield spread falling to -75 basis points, from -70.

Interest-rate markets continue to expect a pause from the Fed later this week and have a 45% probability of one more hike this year. Markets currently expect three 25-basis-point cuts in 2024.

Australian government bond yields fell across the curve. The 3-year government bond yield (futures) lost 1 basis point, to 3.88%. The 10-year futures yield was 2 basis points lower, at 4.20%. Interest rate markets attach a 44% probability of one more hike from the RBA by early next year and a 32% chance of a cut by the end of 2024. The chance of a cut by the end of next year is down from a 61% probability at the end of last week.

Foreign Exchange: The US dollar ended slightly lower against a basket of major currencies. The USD Index dropped from a high of 105.36 to a low of 105.02. It was trading near that low, at 105.07, at the time of writing.

The AUD/USD pair ended largely unchanged after trading in a narrow range. The pair traded between a low of 0.6417 and a high of 0.6449, before slipping slightly to 0.6438 at the time of writing.

Commodities: Oil prices continued to move higher. The West Texas Intermediate (WTI) oil futures price briefly rose above US\$92 per barrel during the session, before closing slightly lower. This was the highest level since November. Prices pulled back towards the end of the session as Saudi Arabia's

energy minister said that the “jury is still out” on oil consumption in China, and Saudi Aramco lowered its estimates for demand by 2030. Oil prices remain a key area to watch going forward as the longer they remain elevated, the greater the risk that it has implications for the inflation outlook.

Looking to other commodity prices, iron ore and copper declined, while gold was higher.

Australia: There were no major economic data releases yesterday.

United Kingdom: House prices rose for the first time in three months as prices were 0.4% higher in September. This followed a 1.9% and 0.2% drop in August and July, respectively. Prices in London were unchanged in the month. The average property asking price in the UK was £366,281 in August, and £673,167 in London. In annual terms, prices were 0.4% lower through the year to August.

United States: Confidence among homebuilders slipped back into contractionary territory after a four-month stint in expansionary territory. Sentiment fell to 45 in September, from 50 in August. This disappointed expectations, which centred on a smaller fall to 49. The outcome was the weakest reading in five months. Higher mortgage rates, which are over 7%, continue to impact affordability and demand for building new homes, flowing through to lower applications and weaker sentiment among homebuilders. The move lower over the past two months has unwound some of the rebound in sentiment over 2023, which saw sentiment rise from 31 in December to 56 in July.

The New York Fed Services Business Activity index fell into negative territory in September. The index dropped to -3.0 in the month, from 0.6 in August. Views on the business climate remained deeply entrenched in negative territory. The survey provided some mixed signals for the inflation and labour market outlook. Employment measures fell while wage measures rose. Prices paid were slightly higher from the previous month, while prices received declined.

Today's key data and events:

AU RBA Board Meeting Minutes (11:30am)

EZ CPI Aug Final exp 0.6% prev 0.6% (7pm)

US Housing Starts Aug exp -1.0% prev 3.9% (10:30pm)

US Building Permits Aug exp -0.2% prev 0.1% (10:30pm)

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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The Detail

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