

Wednesday, 30 August 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,210	0.7%			Last	Overnight Chg		Australia		
US Dow Jones	34,853	0.8%	10 yr bond	4.06				90 day BBSW	4.14	0.00
Japan Nikkei	32,227	0.2%	3 yr bond	3.79				2 year bond	3.88	-0.02
China Shanghai	3,288	1.2%	3 mth bill rate	4.17				3 year bond	3.82	-0.04
German DAX	15,931	0.9%	SPI 200	7,209.0				3 year swap	4.06	0.01
UK FTSE100	7,465	1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.10	-0.04
Commodities (close & change)*			TWI	60.2	-	-	60.2	United States		
CRB Index	279.8	1.1	AUD/USD	0.6429	0.6487	0.6401	0.6479	3-month T Bill	5.29	-0.02
Gold	1,937.54	17.4	AUD/JPY	94.21	94.60	94.05	94.55	2 year bond	4.89	-0.15
Copper	8,438.50	89.3	AUD/GBP	0.5101	0.5128	0.5092	0.5124	10 year bond	4.12	-0.08
Oil (WTI futures)	81.16	1.1	AUD/NZD	1.0880	1.0891	1.0844	1.0853	Other (10 year yields)		
Coal (thermal)	161.65	0.1	AUD/EUR	0.5942	0.5969	0.5934	0.5956	Germany	2.51	-0.05
Coal (coking)	256.75	0.5	AUD/CNH	4.6881	4.7228	4.6795	4.7190	Japan	0.65	-0.01
Iron Ore	110.85	0.7	USD Index	103.96	104.36	103.37	103.48	UK	4.42	-0.02

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: Softer jobs data in the US soothed some angst in markets following Jerome Powell's higher for longer messaging in Jackson Hole. Signs of cooling excess labour demand supported expectations that the Fed will leave rates on hold, prompting a risk on mood overnight. US equities rallied, while treasury yields and the Dollar fell.

Share Markets: Equities jumped in the US and in Europe overnight alongside the risk on tone. The S&P 500 gained 1.5%, led by tech, though all 11 sectors gained on the day. The NASDAQ rose 1.7%, while the Dow Jones was up 0.9%.

European bourses were also firmer alongside a fall in bond yields. The FTSE 100 finished 1.7% higher in London, while the German Dax gained 0.8%.

Locally, the ASX 200 gained 0.7% yesterday, it's biggest jump in nearly 5 weeks. Futures are pointing to a positive open this morning, though a slew of domestic data could see a choppy session today.

Interest Rates: US yields were lower across the curve. A rally in the policy sensitive 2-year treasury saw the yield slip 15 basis points to 4.89%, the largest daily fall since early May. The 10-year yield was also softer, falling 8 basis points to 4.12%. This led to a bull-steepening in the yield curve, a positive signal for risk assets.

Markets are currently pricing around a 50% chance of another hike from the Fed and are fully pricing

two rate cuts by July next year.

Aussie bond futures mimicked the US in direction, but not in magnitude. Patience ahead of domestic inflation data today likely drove the divergence. Both the 3-and-10-year futures yields fell 3 basis points to 3.79% and 4.06%, respectively.

Interest rate markets continue to price around a 40% chance of another rate hike from the Reserve Bank (RBA) this cycle. Cuts are yet to be fully priced in by October next year.

Foreign Exchange: The Aussie dollar outperformed overnight, making the most of a softer Greenback. The AUD/USD pair bounced off a low of 0.6401 before running into key resistance at around the 0.6490 level, which it last tested, and failed, a week ago. The pair was trading near 0.6479 at the time of writing. Domestic data today will likely drive price action, with the pair susceptible to a short-covering rally if inflation data surprises meaningfully to the upside but downside risks remain should inflation come in softer. If the pair can pierce 0.6490, the next key resistance sits around 0.6550-60, marking the 38.2% Fibonacci retracement on the 0.6895-0.6365 tumble. Downside support remains at around 0.6400.

The US dollar was softer overnight as traders pared the probability of additional Fed rate hikes. The DXY fell from a high of 104.36 to a low of 103.37 and is

currently trading slightly above that level at 103.48.

Commodities: Commodity prices were broadly firmer. Oil, gold, and iron ore all rose. The West Texas Intermediate (WTI) future closed at US\$81.16 per barrel.

Australia: The RBA's Deputy Governor, Michelle Bullock, gave a speech on the importance of climate risks for central banks. Bullock touched on how physical and transition risks are relevant to monetary policy and the potential implications for financial stability. When queried on the near-term trajectory of interest rates, Bullock gave little up, reiterating that the RBA is taking a meeting-by-meeting approach to setting policy.

United States: US Job openings fell by more than expected in July, pointing to a contraction in excess labour demand which may help cool wages and maximise the chances of bringing inflation down without a material softening in labour market conditions. JOLTS job openings came in at 8,827k in July, compared to expectations of a 9,500k reading. The fall in openings pulled the vacancy-to-unemployed ratio down to 1.5, while the quit rate also eased. The result saw the chances of a near-term rate hike from the Fed pull back slightly.

Consumer confidence came in more downbeat than expected in August. The sentiment index fell to 106.1 from a revised 114.0 in July – the largest monthly fall in two years. Expectations on the outlook were particularly weak, driven by souring views on the labour market, higher borrowing costs and lingering inflation.

The FHFA house price index rose 0.3% in June, missing expectations for a 0.6% gain. This represented a slowdown on May's pace of 0.7% and was the weakest lift since January. Still, house prices have now been on the rise for 10 consecutive months according to the FHFA. The CoreLogic measure also gained, rising 0.9% in June following a 1.0% gain in May. This was the fourth consecutive monthly increase in the CoreLogic series.

Today's key data and events:

NZ Building Permits Jul prev 3.5% (8:45am)
 AU Construction Work Done Q2 exp 1.5% prev 1.8% (11:30am)
 AU Bldg. Approvals Jul exp -1.0% prev -7.7% (11:30am)
 AU CPI Indicator Jul y/y exp 4.8% prev 5.4% (11:30am)
 EZ Consumer Confidence Aug Final prev -16.0 (7pm)
 EZ Economic Confidence Aug exp 93.5 prev 94.5 (7pm)
 EZ Ger. CPI Aug Prel. exp 0.3% prev 0.3% (10pm)
 US ADP Employ. Chg. Aug exp 195k prev 324k (10:15pm)
 US GDP Annualised Q2 exp 2.4% prev 2.4% (10:30pm)
 US Pending Home Sales Jul exp -1.0% prev 0.3% (12am)

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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