

# Morning Report

Monday, 23 January 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,452	0.2%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>			
US Dow Jones	33,375	1.0%	10 yr bond		3.47	0.07		90 day BBSW	3.27	-0.03	
Japan Nikkei	26,554	0.6%	3 yr bond		3.07	0.06		2 year bond	2.93	0.05	
China Shanghai	3,422	0.8%	3 mth bill rate		3.44	0.03		3 year bond	3.00	0.05	
German DAX	15,034	0.8%	SPI 200		7,428.0	34		3 year swap	3.51	0.06	
UK FTSE100	7,771	0.3%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	3.40	0.08
Commodities (close & change)*			TWI		61.2	-	-	61.4	<b>United States</b>		
CRB Index	278.5	1.8	AUD/USD		0.6912	0.6976	0.6906	0.6962	3-month T Bill	4.52	-0.02
Gold	1,926.08	-6.2	AUD/JPY		88.79	90.44	88.69	90.28	2 year bond	4.17	0.04
Copper	9,319.76	12.3	AUD/GBP		0.5580	0.5632	0.5575	0.5622	10 year bond	3.48	0.09
Oil (WTI futures)	81.64	1.0	AUD/NZD		1.0804	1.0812	1.0764	1.0789	<b>Other (10 year yields)</b>		
Coal (thermal)	289.50	-9.4	AUD/EUR		0.6384	0.6426	0.6377	0.6413	Germany	2.18	0.11
Coal (coking)	332.33	1.8	AUD/CNH		4.6847	4.7320	4.6769	4.7288	Japan	0.39	-0.06
Iron Ore	126.10	0.0	USD Index		102.09	102.55	101.94	101.99	UK	3.38	0.10

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:** Several Federal Reserve officials are suggesting the pace of tightening in the US will slow, which encouraged investors to whet their appetites for risk. Key global share market indices rose and bond yields in most major economies lifted.

**Share Markets:** US share markets rose on Friday. The Dow lifted 1.0%, the S&P 500 jumped 1.9% and the Nasdaq surged 2.7%. US tech earnings start this week. Bloomberg predicts S&P 500 companies in the sector will see quarterly profit drop by an average 9.2%, which would be the steepest slide since 2016.

**Interest Rates:** Bond yields across the US curve rose on Friday, encouraged by the improvement in risk sentiment. The US 2-year yield rose by 4 basis points and the 10-year yield jumped 9 basis points.

The Australian 3-year government bond yield (futures) rose from 3.01% to 3.07% and the 10-year yield rose from 3.40% to 3.47%.

Australian interest-rate markets are currently attaching a 59% probability to a rate hike of 25 basis points next week from the Reserve Bank (RBA). And they are pricing in a peak in the cash rate in this cycle at 3.53% in September 2023.

**Foreign Exchange:** The improvement in risk sentiment led to a modest sell off in the US dollar index. The AUD/USD recovered some of the ground lost between 19 and 20 January when it fell from a

high of 0.7063 to a low of 0.6872. The AUD/USD recovered to reach a high of 0.6972. The inflation data out in Australia later this week may determine if the AUD/USD pair can reclaim the 0.7063 handle and push above it.

The Asian trading session will be thinner today due to ongoing Lunar Year celebrations in parts of Asia.

**Commodities:** Oil advanced and gold fell.

**Australia:** There was no major economic data published on Friday domestically.

**Europe:** European Central Bank (ECB) member Klaas Knot called for 50-basis-point hikes in both February and March, saying the time to slow down is "still far away." ECB colleague, Olli Rehn, was less specific, but said "there are grounds for significant increases" in the winter and early spring, reiterating comments he has made previously.

ECB President Lagarde also repeated inflation remained too high. She said the ECB "will do what is necessary".

**Japan:** Headline inflation jumped 3.7% in the year to December – matching market expectations. It is the biggest annual growth rate since December 1981, when inflation was still high from the impact of the 1979 oil price shock. The core consumer price index, which excludes volatile fresh food but includes energy costs, rose 3.7% in November from a year earlier, perking up from a 3.6% gain in October. It was also the biggest rise since December

1981. Core consumer inflation is expected to slow back near the Bank of Japan's 2% target next year, as the base effect of past fuel price spikes dissipates and the impact of government subsidies to curb electricity prices take effect from February.

**New Zealand:** Chris Hipkins was confirmed as New Zealand's next Prime Minister after the ruling Labour Party unanimously endorsed him to succeed Jacinda Ardern as its leader. Hipkins will be officially sworn in on January 25.

The manufacturing purchasing managers' index (PMI) stayed steady in contractionary territory in December at 47.2.

**United States:** Existing home sales, which are counted when a contract is closed, fell 1.5% to an annual rate of 4.02 million in December. It is the lowest level since November 2010 and marks the eleventh straight monthly decline in sales, the longest such stretch since 1999. In year-on-year terms, existing sales fell 17.8%.

Federal Reserve Governor Christopher Waller, one of the leading inflation hawks and an advocate last year of aggressive rate increases, supports scaling back to a quarter-point rate hike at the Fed's next meeting. Waller added that he expects more tightening after the upcoming meeting and said there is still a "considerable way to go".

Philadelphia Federal Reserve President Patrick Harker reiterated that he's ready for the central bank to move to a slower pace of interest rate rises amid some signs that hot inflation is cooling.

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

US Leading Index Dec exp -0.7% prev -1.0% (2am)

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

**Besa Deda, Chief Economist**

Ph: +61 404 844 817

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@stgeorge.com.au  
+61 404 844 817

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@stgeorge.com.au  
+ 61 481 476 436

**Senior Economist**

Pat Bustamante  
pat.bustamante@stgeorge.com.au  
+61 468 571 786

**Economist**

Jameson Coombs  
jameson.coombs@stgeorge.com.au  
+61 401 102 789

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