

Morning Report

Wednesday, 24 May 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,260	0.0%			Last	Overnight Chg		Australia			
US Dow Jones	33,056	-0.7%	10 yr bond		3.65	-0.01		90 day BBSW	3.92	0.00	
Japan Nikkei	30,958	-0.4%	3 yr bond		3.35	-0.02		2 year bond	3.55	0.07	
China Shanghai	3,403	-1.5%	3 mth bill rate		3.97	0.00		3 year bond	3.38	0.07	
German DAX	16,153	-0.4%	SPI 200		7,241.0	-35		3 year swap	3.74	-0.02	
UK FTSE100	7,763	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.65	0.06	
Commodities (close & change)*			TWI		60.7	-	-	60.7	United States		
CRB Index	261.2	-0.4	AUD/USD		0.6651	0.6662	0.6607	0.6611	3-month T Bill	5.09	-0.04
Gold	1,975.23	3.4	AUD/JPY		92.16	92.35	91.47	91.59	2 year bond	4.32	0.00
Copper	8,068.75	-26.8	AUD/GBP		0.5348	0.5358	0.5322	0.5325	10 year bond	3.69	-0.02
Oil (WTI futures)	72.91	0.9	AUD/NZD		1.0577	1.0612	1.0569	1.0582	Other (10 year yields)		
Coal (thermal)	161.25	-2.2	AUD/EUR		0.6151	0.6162	0.6131	0.6137	Germany	2.47	0.01
Coal (coking)	235.00	0.0	AUD/CNH		4.6876	4.7014	4.6670	4.6697	Japan	0.40	0.01
Iron Ore	99.00	-1.0	USD Index		103.28	103.65	103.16	103.52	UK	4.16	0.09

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: Little progress was made on lifting the debt ceiling in the US, which led to a fall in riskier asset classes like equities. In other news, oil prices rose on warnings from Saudi Arabia and data showing a drop in US oil inventories.

Share Markets: US share markets closed lower, as negotiations over the debt ceiling remained at an impasse. The S&P 500 dropped 1.1%, the Dow was down 0.7% and the Nasdaq was sold off 1.3%.

Interest Rates: The US 2-year yield lifted 9 basis points to 4.41% during trade, but then closed unchanged at 4.32%. The US 10-year yield lifted 5 basis points to a high of 3.76%, before closing 2 basis points lower at 3.69%.

Markets are currently attaching a probability of 30% to another rate hike from the US Federal Reserve when they next meet in June.

The Australian 3-year government bond yield (futures) round tripped from 3.36% to 3.43% and back. The 10-year yield did the same - from 3.65% to 3.70% and back.

Markets are currently attaching a very low probability of the Reserve Bank (RBA) hiking in June with just a 4% chance. However, the probability of the RBA hiking by August is sitting at 55%.

Foreign Exchange: AUD/USD stuck to a very narrow trading range and within a broader, familiar trading range of 0.6607-0.6662. The USD index was firmer in trade, including against the Japanese yen.

USD/JPY at one point struck a 6-month high of 138.91. But the AUD/USD cross remained under selling pressures overnight.

Commodities: The world price of oil rose after Saudi Arabia warned short sellers to “watch out”. Further, data showed that US crude inventories decreased by 6.8 million barrels last week.

In other news, wheat prices rose as China switched to wheat-based hog feed in a push to cut reliance on soy and corn imports.

Australia: There were no major economic data releases yesterday.

Eurozone: The purchasing managers’ indexes (PMIs) in the euro area showed that manufacturing activity was contracting but that services were expanding. The manufacturing PMI fell 1.2 points to 44.6 in May whilst the services PMI fell 0.3 points to 55.9, but remained above the critical 50.0 level indicating expansion. The composite index also declined, from 54.1 in April to 53.9 in May.

New Zealand: The Reserve Bank of New Zealand (RBNZ) is poised to hike for a twelfth straight meeting later today. It is likely to hike by 25 basis points, taking the official cash rate to 5.50%. The RBNZ may also leave the door open for further increases. While inflation is slowing, surging immigration and increased government spending on storm recovery are boosting economic growth.

United Kingdom: The PMI for manufacturing fell

further below 50.0 in May, indicating activity in this sector will continue to contract. The manufacturing PMI dropped from 48.0 in April to 46.9 in May. Meanwhile, services activity remained in expansionary territory with the PMI edging lower to 53.9 in May but staying above 50.0.

United States: News reports suggest that Republicans remained downbeat about negotiations over the debt ceiling after the latest talks with the White House. The Republican party's negotiator Garret Graves signalled that despite "substantial progress" in some areas, the two sides were still at a standstill.

New home sales unexpectedly rose 4.1% in April to an annualised rate of 683,000 – the highest level since March 2022. The median sales price dropped 8.2% year on year, which is the biggest annual decline in three years.

Meanwhile, the services and composite PMIs published by S&P Global improved in May and beat consensus expectations. The services PMI lifted 1.5 points to 55.1 and the composite PMI rose 1.1 points to 54.5. In contrast, the manufacturing PMI fell in May and underwhelmed consensus expectations. It fell from 50.5 in April to 48.5 in May.

Federal Reserve district surveys overnight also revealed that the services sector is showing greater resilience compared with manufacturing. The Richmond Fed manufacturing index deteriorated further in May to minus 15, from minus 10 in April. The Philadelphia non-manufacturing index improved from minus 22.8 in April to minus 6.0 in May.

Today's key data and events:

NZ Real Retail Sales Q1 exp 0.1% prev -0.6% (8:45am)
AU Leading Index Apr prev -0.01% (10:30am)
NZ RBNZ Official Cash Rate exp 5.50% prev 5.25% (12pm)
UK CPI Apr y/y exp 8.2% prev 10.1% (4pm)
UK CBI Trends May (8pm)
UK House Price Index Mar y/y exp 4.5% prev 5.5% (6:30pm)
US FOMC Minutes for 3 May Meeting (4am)

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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