Morning Report

Tuesday, 25 July 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,306	-0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,411	0.5%	10 yr bond	4.00		0.01		90 day BBSW	4.36	0.00
Japan Nikkei	32,701	1.2%	3 yr bond	3.93		0.02		2 year bond	3.98	-0.03
China Shanghai	3,317	-0.1%	3 mth bill rate	4.45		0.01		3 year bond	3.92	-0.03
German DAX	16,191	0.1%	SPI 200	7,301.0		41		3 year swap	4.29	0.02
UK FTSE100	7,679	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.99	-0.02
Commodities (close & change)*			TWI	62.1	-	-	62.1	**United States**		
CRB Index	280.1	3.7	AUD/USD	0.6734	0.6756	0.6715	0.6739	3-month T Bill	5.26	0.00
Gold	1,954.73	-7.2	AUD/JPY	95.42	95.48	94.88	95.33	2 year bond	4.92	0.08
Copper	8,444.00	-37.3	AUD/GBP	0.5238	0.5266	0.5225	0.5255	10 year bond	3.87	0.04
Oil (WTI futures)	78.74	1.7	AUD/NZD	1.0909	1.0926	1.0848	1.0858	**Other (10 year yields)**		
Coal (thermal)	148.20	0.5	AUD/EUR	0.6050	0.6097	0.6038	0.6090	Germany	2.43	-0.04
Coal (coking)	237.67	1.2	AUD/CNH	4.8407	4.8600	4.8294	4.8430	Japan	0.46	0.01
Iron Ore	113.80	1.2	USD Index	101.05	101.43	100.89	101.38	UK	4.26	-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: Mixed activity indicators out of the US, UK, and Europe impacted market sentiment overnight. Manufacturing and services activity came in softer than expected in Europe and the UK. Activity across the US manufacturing sector remained in contractionary territory but was stronger than expected, while services activity slowed. The data contributed to a rise in US bond yields and a strengthening in the US dollar, while bond yields in Europe were down. The Aussie dollar traded in a narrow range and closed broadly unchanged from where it opened. Equity markets closed higher.

Investors continue to look ahead to key central bank decision from the Federal Reserve, European Central Bank, and Bank of Japan due towards the end of the week.

Share Markets: Equity markets eked out gains as investors position ahead of key central bank meetings later this week and reports from corporates during this earnings season. The S&P 500 rose 0.4%, the Nasdaq gained 0.2%, while the Dow Jones continued its winning streak – rising 0.5% to record an 11th consecutive daily gain, its longest winning streak since 2017.

The ASX 200 fell 0.1% yesterday despite seven of 11 sectors finishing in the green. The market was dragged lower by a 1.4% fall in materials. Consumer staples, IT and financials were also lower on the day. On the opposite side of the ledger, the energy sector was the strongest performer, rising 2.2% on the day. Futures are pointing to a positive open today following the lead from the US.

Interest Rates: US bond yields ended higher on the day. Yields initially fell following the release of weaker-than-expected European and UK purchasing managers index (PMI) data. However, these moves were later retracted following the release of US activity data, which was more mixed and showed that price pressures remain elevated.

The US 2-year treasury yield closed 8 basis points higher, at 4.92%. The 10-year yield was 4 basis points higher, at 3.87%. Yields in Europe closed lower. 10-year yields in Germany (-4 basis points) and the UK (-2 basis points) closed lower, at 2.43% and 4.26%, respectively.

Interest-rate markets have almost fully priced a 25-basis-point move from the Fed later this week (97%). Beyond July, markets are attaching a 40% probability of one more hike by the end of 2023. Markets continue to fully price cuts from mid-2024 onwards.

Australian bond yields broadly mimicked moves in the US, but to a lesser degree. The 3-year Australian government bond yield (futures) was 2 basis points higher, at 3.93%. The 10-year government bond yield (futures) closed 1 basis point higher, at 4.00%.

Interest-rate markets are pricing a 44% probability of a hike from the Reserve Bank next week and expect the cash rate to reach 4.44% by the end of 2023.

Foreign Exchange: The US dollar closed higher against a basket of major currencies in line with movements in bond yields across key regions following the release of the activity data. The USD Index ranged between a low of 100.89 and a high of 101.43, before closing at 101.38.

The AUD/USD pair traded in a narrow range and closed not far from where it opened. It ranged between a low of 0.6715 and a high of 0.6756, before closing at 0.6739.

Commodities: Oil traded higher and hit a three-month high during the session as previously announced cuts from OPEC+ nations are beginning to impact supply. Iron ore and coal were also higher, while gold and copper fell.

Australia: There were no major economic data releases yesterday.

Eurozone: The manufacturing sector continues to be impacted by higher interest rates, elevated inflation, and waning demand for goods across the world as consumer budgets are stretched. The manufacturing PMI fell further into contractionary territory in July, to 42.7 index points. This was down from 43.4 in June and below consensus expectations of 43.5. The outcome was the weakest result since May 2020 and the index has now been in contraction for 13 consecutive months. Looking at the sub-components, new orders declined to 38.8, from 40.1 in June, pointing to a weak outlook.

The services sector remained in expansionary territory for the seventh consecutive month. However, momentum in the sector continues to slow. The services PMI printed at 51.1 in July, down from 52.0 in June. The outcome was below consensus expectations of 51.6.

Importantly for the European Central Bank, the survey showed that inflationary pressures "are still creeping up". This reflected increased prices across the services sector, which were partly offset by outright price falls across the manufacturing sector. However, encouragingly, the pace of price gains across the services sector moderated in July.

New Zealand: The trade surplus narrowed to $9 million in June. The result followed a revised $52 million surplus in May (revised higher from an initial $46 million reading). The outcome reflected a 9.4% decline in exports in the month, partly offset by an 8.9% drop in imports. By country, exports to China were down 20.4% in June, while exports to Japan also declined (-14.1%). In annual terms, a trade deficit of $16.0 billion was reported over the 12 months to June, down from a deficit of $17.1 billion over the 12 months to May.

United Kingdom: Conditions across the manufacturing sector continued to decline as the manufacturing PMI slipped to 45.0 in July – its 12th consecutive month of contraction. This was down from 46.5 in June and below expectations of 46.0. In line with outcomes across the Eurozone, the manufacturing PMI was at its lowest since May 2020. New orders signalled further contraction is likely be on the horizon, falling to 44, from 45.5 in June.

The services sectors slowed by more than expected as interest rate increases from the Bank of England appear to be working to weaken demand across the sector. The services PMI dropped to 51.5 in June, from 53.7 in June. The outcome was below expectations, which centred on 53.0.

United States: Activity indicators were mixed, as services activity expanded at a slower-than-expected rate, while manufacturing activity surprised to the upside. The S&P global manufacturing PMI came in at 49.0 in July. This was stronger than the 46.2 expected by consensus and flowed a 46.3 reading in June. The outcome signalled that the manufacturing sector remained in contractionary territory. However, the reading was stronger than expected and was the highest outcome since April. Input prices rose to 50.6, from 47.2 in June, uncomfortably signalling that input price pressures rose in July.

Services activity was positive in July but slowed by more than expected. The services PMI came in at 52.4 in July, down from 54.4 in June and below the 54.0 reading expected by consensus. The services sector has been in expansionary territory for six consecutive months. However, the weaker-than-expected result suggests that higher rates and a slowing economy are impacting the sector and slowing economic activity. The survey suggested that price pressures remain sticky – output prices from services firms rose in July and input prices also continued to rise, albeit at a slower pace.

The Chicago fed national activity index indicated that economic activity fell in June. The index came in at -0.32 in June, following a revised -0.28 outcome in May (revised lower from an initial -0.15 reading). The outcome was lower than consensus expectations, which centred on a reading of -0.13.

Today's key data and events:

EU Ger. IFO Business Climate Survey Jul exp 88.0 prev 88.5 (6pm)

US FHFA House Prices May exp 0.6% prev 0.7% (11pm)

US S&P CoreLogic CS House Prices May exp 0.7% prev 0.9% (11pm)

US Cons. Confidence Index Jul exp 112.0 prev 109.7 (12am)

US Richmond Fed Mfg Index Jul exp -10 prev -7 (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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