Morning Report

Wednesday, 20 September 2023

st.george

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,197	-0.5%		Last		Overnight Chg		Australia		
US Dow Jones	34,518	-0.3%	10 yr bond	4.22		0.05		90 day BBSW	4.13	0.01
Japan Nikkei	33,243	-0.9%	3 yr bond	3.93		0.06		2 year bond	3.91	-0.02
China Shanghai	3,276	0.0%	3 mth bill rate	4.30		0.03		3 year bond	3.89	-0.02
German DAX	15,664	-0.4%	SPI 200	7,184.0		-16		3 year swap	4.14	0.02
UK FTSE100	7,660	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.17	-0.04
Commodities (close & change)*			TWI	60.6	-	-	60.6	United States		
CRB Index	290.0	0.6	AUD/USD	0.6437	0.6474	0.6428	0.6455	3-month T Bill	5.27	-0.01
Gold	1,931.36	-2.5	AUD/JPY	95.02	95.64	94.98	95.43	2 year bond	5.09	0.04
Copper	8,336.80	-51.7	AUD/GBP	0.5197	0.5218	0.5192	0.5209	10 year bond	4.36	0.06
Oil (WTI futures)	91.20	-0.3	AUD/NZD	1.0882	1.0895	1.0862	1.0875	Other (10 year yields)		
Coal (thermal)	171.00	1.3	AUD/EUR	0.6021	0.6052	0.6018	0.6045	Germany	2.74	0.03
Coal (coking)	300.00	0.0	AUD/CNH	4.6951	4.7236	4.6928	4.7145	Japan	0.72	0.00
Iron Ore	121.30	1.1	USD Index	105.08	105.21	104.82	105.14	UK	4.34	-0.05

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US stocks dipped, US bond yields were higher (particularly at the longer end of the curve) and the US dollar advanced as investors await the Fed's next interest rate move.

Oil prices remained elevated with West Texas Intermediate oil futures almost reaching US$94 per barrel (highest level since November 2022), before settling at around US$91. Commodity currencies, including the Aussie, outperformed supported by higher price of energy commodities.

The OECD released its Interim Economic Outlook overnight, which forecasts a further slowdown in global economic activity in 2024, as the "rebound in China has faded" and as higher interest rates continue to bite. The OECD notes that risks remain tilted to the downside, with a sharper-than-expected slowdown in China posing a key threat to global activity.

Share Markets: US stocks dipped overnight ahead of the US Federal Reserve decision. Markets are attaching a very small chance of another 25-basis point hike when the Fed's decision is announced tonight. However, the increase in the global oil price may see rates remain higher for longer, weighing on activity and on equity markets. This was also noted in the OECD's Interim Economic Outlook released overnight.

Fed Committee members will provide updated guidance on expected future rate paths through the release of the so called "dot plot". The S&P 500 and the Nasdaq closed 0.2% lower, while the Dow Jones was 0.3% lower.

The ASX 200 fell for the second consecutive day, closing 0.5% lower. Eight of the eleven sectors were lower led by materials stocks. Futures are pointing to a weak open this morning.

Interest Rates: US bond yields were higher across the curve as investors position ahead of the Fed's decision and the updated guidance. The US 2-year yield increased by 4 basis points to 5.09%, while the 10-year yield increased by 6 basis points to 4.36%.

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

Following the lead from the US, Australian government bond yields were higher across the curve. The 3-year government bond yield (futures) increased by 6 basis points, to 3.93%. The 10-year futures yield increased by 5 basis points, 4.22%.

Interest rate markets attach a 50% probability of one more hike from the RBA by early next year and a 32% chance of a cut by the end of 2024.

Foreign Exchange: The US dollar ended slightly higher against a basket of major currencies, supported by higher yields. The USD Index increased from a low of 104.82 to a high of 105.21. It is currently trading at 105.14.

Commodity currencies, including the Aussie, outperformed given higher price of oil and energy commodities. The AUD/USD pair reached a high of 0.6474 before retracing some of this jump to settle at around 0.6455.

Commodities: Oil prices remain elevated. The West Texas Intermediate (WTI) oil futures price increased to US$93.74 per barrel, before falling to US$91.20 per barrel.

Looking to other commodity prices, iron ore and coal increased while copper and gold declined.

Australia: The NSW 2023-24 Budget shows that the net operating balance is forecast to be a deficit of $7.8 billion in 2023-24, before improving to a surplus of $1.5 billion in 2026-27.

While the aggregate numbers remain little changed, looking beneath the bonnet shows the Government has made significant new spending decisions. In net terms, the Government announced $6.5 billion in new spending from 2023-24 to 2026-27. There's $4.9 billion in new spending in 2023-24 alone. How is this being financed? Mostly through windfalls from the resurgent property market and the larger population.

Economic growth is expected to ease over the next two years despite a boost from strong population growth. This will see unemployment tick up modestly.

The Budget recognises that NSW is in the middle of a population boom and a "housing crisis". The focus of the Budget was on delivering social services, housing, and providing cost of living relief for some cohorts. The aggregate infrastructure budget was broadly unchanged.

The NSW Treasurer had stated that the Budget will "thread the needle" between repair and reinvesting in the State to deal with emerging issues. While the Budget's bottom line did not deteriorate, windfalls from a stronger nominal economy were spent on areas such as funding higher public wages and providing relief for cost of living.

The outlook is not without its challenges. Infrastructure investment needs to continue to increase to house the larger population. With limited spare capacity in the economy this may be hard in the near term. But it's required to set the state on the path to prosperity with the much bigger population.

The Reserve Bank (RBA) Board left the cash rate unchanged at 4.10% at its September meeting. Minutes from the meeting reveal that two options were considered – raising the cash rate target by a further 25 basis points or holding the cash rate target steady.

The RBA Board opted to leave the cash rate unchanged to provide more time to see the full effects of the tightening of monetary policy. It was also noted that the recent flow of data was consistent with inflation returning to target.

Eurozone: The consumer price index (CPI) was 5.2% higher over the year to August, slightly below the 5.3% initial estimate. This was the lowest reading since January 2022. On a monthly basis, the CPI went up 0.5%, slightly below 0.6% in the first estimate.

United States: Housing starts declined by 11.3% to an annualised rate of 1.283 million in August, the lowest level since June 2020. Tighter financial conditions, a surge in mortgage rates and high home prices continue to weigh on affordability and on housing market activity.

On the other hand, building permits for future starts increased by 6.9% to an annualised rate of 1.543 million in August, the highest since October 2022. Permits were boosted by a 14.8% increase in multi-family housing and a 2.0% increase in single-family housing permits.

Today's key data and events:

AU WBC Leading Index Aug prev 0.0% (10:30am)

NZ Current Account Q2 prev -$5.2bn (8:45am)

UK CPI Aug prev -0.4% (4pm)

US FOMC Policy Decision

Federal Funds Rate exp 5.25% - 5.50% prev 5.25% - 5.50% (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.

Pat Bustamante, Senior Economist
Ph: +61 468 571 786

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