

Morning Report

Tuesday, 7 November 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,997	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	34,096	0.1%	10 yr bond	4.77		0.03		90 day BBSW	4.35	-0.01
Japan Nikkei	32,708	2.4%	3 yr bond	4.34		0.05		2 year bond	4.34	-0.01
China Shanghai	3,207	0.9%	3 mth bill rate	4.42		0.01		3 year bond	4.27	-0.01
German DAX	15,136	-0.4%	SPI 200	6,993.0		-11		3 year swap	4.47	0.06
UK FTSE100	7,418	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.72	0.00
Commodities (close & change)			TWI	60.8	-	-	60.8	United States		
CRB Index	281.9	0.1	AUD/USD	0.6508	0.6523	0.6487	0.6489	3-month T Bill	5.26	0.00
Gold	1,978.26	-14.4	AUD/JPY	97.15	97.51	97.08	97.33	2 year bond	4.94	0.10
Copper	8,109.70	30.2	AUD/GBP	0.5259	0.5270	0.5236	0.5257	10 year bond	4.65	0.07
Oil (WTI futures)	80.88	0.4	AUD/NZD	1.0857	1.0891	1.0853	1.0881	Other (10 year yields)		
Coal (thermal)	126.50	-3.5	AUD/EUR	0.6064	0.6078	0.6046	0.6053	Germany	2.74	0.09
Coal (coking)	327.00	0.3	AUD/CNH	4.7447	4.7529	4.7246	4.7270	Japan	0.88	-0.04
Iron Ore	123.55	-0.2	USD Index	105.08	105.26	104.85	105.25	UK	4.38	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: US equities finished slightly higher as the market looked for direction following the big gains recorded last week. In the data light week ahead, investors wait for speeches from several US Fed officials, including US Fed Chair Powell later this week.

US bond yields increased ahead of three scheduled auctions, the US dollar index finished higher, and the price of oil was little changed.

Share Markets: US equities retraced the gains made in early trade to finish slightly higher for the day. This comes after each of the major indexes recorded their strongest weekly performances of the year last week. With limited top tier economic data released overnight, the rally in early trade lost momentum throughout the day. The S&P 500 was 0.2% higher, the Dow Jones finished 0.1% higher and the NASDAQ rose 0.3%.

The ASX 200 continued to post gains following the strong performance last week, closing 0.3% higher. Eight of eleven sectors were higher, led by health care stocks. Futures are pointing to a soft open this morning.

European markets finished in the red following some weaker than expected partial economic data released overnight and hawkish comments from central bank officials. The DAX and the Euro Stoxx 50 both finished 0.4% lower.

Interest Rates: US treasury yields increased across the curve, partly retracing the falls we saw last week. The policy sensitive 2-year yield increased 10 basis points to 4.94%. The 10-year yield increased 7 basis points to 4.65%.

Interest rate markets now see just a 20% chance of another rate hike from the Fed this cycle. Rate cuts are fully priced for June 2024.

Aussie bond futures followed the lead from the US treasury market. The 3-year (futures) yield increased 5 basis points to 4.34%. The 10-year (futures) yield increased 3 basis points to 4.77%.

Interest rate markets are pricing in a 55% chance of a rate hike from the Reserve Bank (RBA) today. Markets still see the need for at least one more rate hike, with the risk of a second sitting at around 40%. Most market economist are expecting a rate hike when the RBA Board meets later today.

Foreign Exchange: The US dollar index was slightly higher, receiving support from the US bond higher yields. The DXY traded within a tight range - a low of 104.85 to a high of 105.26. It is currently sitting around 105.25.

The Aussie dollar declined against the stronger Greenback. The AUD/USD pair fell from a high of 0.6523 to a low of 0.6487. The pair is currently trading near 0.6489. The RBA meeting later today presents a key risk.

Commodities: The price of oil eased was broadly unchanged, with the West Texas Intermediate (WTI) price of oil sitting at around USD80.88 per barrel.

Australia: The Melbourne Institute monthly inflation gauge fell 0.1% over the month of October, after a flat reading in September. Prices declined in October for the first time in fourteen months. In annual terms, the inflation gauge eased to 5.1% in October, down from the 5.7% recorded in September.

Job ads declined by 3.0% over the month of October, following a fall of 0.5% in September. Job ads are now 11.4% lower than a year ago. Despite the fall, job ads remain elevated – around 40% higher than the average recorded over 2019.

Eurozone: German factory orders unexpectedly rose by 0.2% over the month of September. This was much better than the fall of 1.5% expected by the market and follows an increase of 3.9% in August (revised from the preliminary estimate 1.9%). This strong read suggests that the manufacturing sector is showing some signs of recovering.

The Composite Purchasing Managers' Index (PMI) Output Index was confirmed at 46.5 index points in October, down from the 47.2 points recorded in September. This points to the sharpest contraction in output in nearly three years.

The services PMI was confirmed at 47.8 index points in October, down from the 48.7 points recorded in September. The October outcome was a 32-month low and marked the third consecutive month of contraction. The survey data indicated a worsening of demand conditions faced by service providers, as new business volumes fell at the quickest pace since January 2021.

The Sentix investor confidence index increased by 3.4 points to -18.6 index points in November. This was

better than the -22.2 index points the market was expecting. Economic expectations jumped by 6.8 points to -10 index points. The current situation index remained broadly unchanged at a very weak read of -26.8 index points.

European Central Bank policy committee member, Robert Holzmann said "We should be very careful, that we should stand ready again to hike if needed, and certainly don't declare victory too early on".

Bank of England Chief Economist, Huw Pill, said "rates will hopefully come off their current levels as long as we return inflation to target, but equally we shouldn't anticipate they'll go back to zero on a very lasting way. The situation that created rates at zero pre-Covid was an exceptional situation too, so they're going to be somewhere in between."

Today's key data and events:

AUA RBA Policy Meeting (2:30pm)

Cash Rate Target exp 4.35% prev 4.10%

CH Trade Balance Oct prev US\$77.8bn

Exports y/y prev -6.2%

Imports y/y prev -6.3%

EZ Ger. Industrial Production Sep prev -0.2% (6:00pm)

EZ Eur. PPI Sep y/y prev -11.5% (9:00pm)

US Trade Balance Sep exp -\$60.5bn prev -\$58.3bn (12:30am)

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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