Morning Report

Monday, 9 October 2023

Equities (close & % change)		
S&P/ASX 200	6,954	0.4%
US Dow Jones	33,408	0.9%
Japan Nikkei	30,995	-0.3%
China Shanghai	3,261	0.1%
German DAX	15,230	1.1%
UK FTSE100	7,495	0.6%
Commodities (close & change)*		
CRB Index	276.9	2.3
Gold	1,833.01	12.7
Copper	7,985.25	147.8
Oil (WTI futures)	82.79	0.5
Coal (thermal)	141.60	2.8
Coal (coking)	354.33	-3.2
Iron Ore	115.00	0.2

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	4.59		0.03	
3 yr bond	4.02		0.01	
3 mth bill rate	4.23		0.01	
SPI 200	7,037.0		58	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	60.3	-	-	60.3
AUD/USD	0.6370	0.6400	0.6313	0.6358
AUD/JPY	94.60	95.56	94.34	94.80
AUD/GBP	0.5225	0.5236	0.5194	0.5210
AUD/NZD	1.0678	1.0694	1.0637	1.0653
AUD/EUR	0.6040	0.6051	0.6005	0.6021
AUD/CNH	4.6543	4.6759	4.6225	4.6453
USD Index	106.34	106.97	105.95	106.10

Interest rates (close & change)		
Australia		
90 day BBSW	4.13	-0.01
2 year bond	4.02	-0.04
3 year bond	4.00	-0.04
3 year swap	4.23	0.01
10 year bond	4.54	-0.03
United States		
3-month T Bill	5.35	0.01
2 year bond	5.08	0.06
10 year bond	4.80	0.08
Other (10 year yields)		
Germany	2.88	0.01
Japan	0.81	-0.01
UK	4.57	0.03

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A material upside surprise to US non-farm payrolls in September underscored market moves on Friday night. The release reignited the sell-off in US treasuries, taking the 10-and-30-year yields to fresh highs since 2007. The US dollar finished lower after an initial spike, while equities shrugged off the lift in real interest rates to post solid gains.

Israel declared war on militant group Hamas after at least 700 people were killed in a surprise attack. The US has deployed six naval vessels to the Mediterranean and munitions and equipment will be supplied to Israel within days. Joe Biden pledged unreserved support for Israel, while leaders from Germany, Ukraine, Italy and UK also announced their support. The fresh geopolitical flare-up poses a potential threat to oil supply should the conflict escalate.

Share Markets: US equities shook off a slump following the payrolls report to finish the day strongly higher. The S&P 500 gained 1.2%, while the Dow Jones and the NASDAQ rose 0.9% and 1.6%, respectively. Friday's rally helped the S&P 500 post a modest weekly gain (0.5%), ending a four-week string of losses.

The ASX 200 rose 0.4% on Friday but finished 1.3% lower over the week. Futures are pointing to a positive open this morning.

Interest Rates: Strong labour market data reignited the treasury sell off, sending yield higher across the curve. Yields pulled back following an initial spike, but still closed comfortably higher. The 2-year yield jumped 6 basis points to 5.08% after reaching as high as 5.14%. The 10-year yield notched up a fresh high since 2007, briefly touching 4.89%, before pulling back to close 8 basis points higher at 4.80%. The 30-year yield breached the 5.0% level for the first time since 2007.

Swaps traders upped the chances of another Fed rate hike. A hike in November is around 30% priced in, while a hike by the end of the year is sitting just shy of 50%.

Aussie bond futures were less responsive to the payrolls surprise. The 3-year (futures) yield rose 1 basis points to 4.02%, while the 10-year (futures) yield gained 3 basis points to 4.59%.

Interest rate markets are pricing just above a 50/50 chance of another hike from the Reserve Bank (RBA) by March next year.

Foreign Exchange: The US dollar finished lower after unwinding its knee-jerk reaction to the US payrolls report. The DXY index touched a high of 106.97 before quickly selling off to low of 105.95. The DXY is currently trading back around 106.04.

The Aussie dollar finished higher on the back of the weaker Greenback. The AUD/USD pair rose from a low of 0.6313 to a high of 0.6400. The pair is currently trading around 0.6360.

Commodities: The sharp correction in oil prices stalled following concerns that renewed conflict between Israel and Hamas could pose a risk to supply. The West Texas Intermediate (WTI) price of oil rose to US$82.79 per barrel.

Australia: The RBA released its semi-annual financial stability review (FSR) on Friday. Of particular interest to the macroeconomic backdrop is the RBA's research into the risks posed by households as interest rates rise. The RBA found that around 5% of variable-rate owner-occupied borrowers currently have insufficient income to meet their essential expenses and mortgage costs. These borrowers would need to draw on savings or increase their income to continue servicing their mortgage. Encouragingly, 70% of these borrowers have savings buffers to cover the excess expenses for at least 2 years. However, there is a small but growing segment of borrowers that are at high risk of severe financial distress and default. Overall, arrears rates remain low, and the majority of borrowers have adjusted well to the sharp increase in interest rates.

Eurozone: German factory orders jumped 3.9% in August, well outpacing expectations for a 1.5% gain. This followed an out-sized 11.3% decline orders through July. The rebound in orders may signal a stabilisation in the country's crucial manufacturing sector which has been under relentless pressure from higher interest rates, high and volatile energy prices and slowing global demand.

United States: Non-farm payrolls surprised materially to the upside in September. Payrolls jumped 336k in the month, almost double expectations for a 170k gain. August's reading of 187k was also revised upward to 227k. The monthly jump in payroll jobs was the largest since January, contrary to the gradual slowdown materialising over much of 2023.

The unemployment rate held unchanged at 3.8%, despite the surge in payrolls. Expectations were centred on a slight fall in the unemployment rate to 3.7%. However, the underemployment rate, which includes employed workers who would prefer to work more hours, ticked down to 7.0% from 7.1%, suggesting a tightening in labour market conditions at the margin.

The tightness of the labour market is crucial for the Fed to the extent that it fuels wage pressures. However, this didn't materialise in September, potentially blunting the strong result. Average hourly earnings rose 0.2% for a second consecutive month, while annual growth in earnings slowed to 4.2% from 4.3% previously. Progress on normalising wages growth has, however, been slow. This could support the case for another Fed rate hike, along with the resilient labour market.

Consumer credit fell $15.6 billion in August, the largest decline since lockdowns in 2020. This follows strong growth in consumer credit for much of 2023. The contraction was largely driven by student loan forgiveness introduced by the Biden Administration.

Today's key data and events:

EZ Ger. Indust. Production Aug prev -0.8% (5pm)

EZ Sentix Investor Confidence Index Oct exp -23.0 prev -21.5 (7:30pm)

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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