bankSA

Morning Report

Tuesday, 5 December 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,125	0.7%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	36,202	-0.1%	10 yr bond	4.47		0.01		90 day BBSW	4.37	0.00
Japan Nikkei	33,231	-0.6%	3 yr bond	4.05		0.01		2 year bond	4.12	-0.04
China Shanghai	3,169	-0.3%	3 mth bill rate	4.38		0.00		3 year bond	4.03	-0.04
German DAX	16,405	0.0%	SPI 200	7,108.0		-36		3 year swap	4.24	0.05
UK FTSE100	7,513	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.45	-0.05
Commodities (close & change)			TWI	61.4	-	-	61.4	**United States**		
CRB Index	267.6	-3.2	AUD/USD	0.6666	0.6691	0.6605	0.6618	3-month T Bill	5.23	0.01
Gold	2,027.95	-44.3	AUD/JPY	97.81	97.97	97.20	97.48	2 year bond	4.64	0.10
Copper	8,381.75	-176.3	AUD/GBP	0.5255	0.5271	0.5238	0.5241	10 year bond	4.27	0.07
Oil (WTI futures)	73.26	-0.8	AUD/NZD	1.0756	1.0770	1.0727	1.0730	**Other (10 year yields)**		
Coal (thermal)	134.45	0.9	AUD/EUR	0.6129	0.6147	0.6106	0.6109	Germany	2.35	-0.01
Coal (coking)	332.67	-1.3	AUD/CNH	4.7493	4.7679	4.7251	4.7306	Japan	0.70	0.00
Iron Ore	127.85	-1.0	USD Index	103.08	103.85	103.07	103.69	UK	4.19	0.05

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: The bullish rally in stocks and bonds took a breather on Monday as investors assessed the possibility that markets have goon too far in pricing aggressive Fed rate cuts next year. US equities closed in the red, while treasury yields were higher across the curve. Gold touched a record high but finished lower in a wild session.

Share Markets: US equities slipped as traders reconsidered the sustainability of the 12% rally in the S&P 500 since late October. The S&P 500 closed down 0.5%, while the tech-heavy NASDAQ fell 0.8%.

The ASX 200 jumped 0.7% yesterday, alongside a fall in real interest rates. Futures are pointing to a pull-back at the open this morning.

Interest Rates: Treasury yields rose across the curve, led by the short end. The 2-year yield jumped 10 basis points to 4.64%, while the 10-year yield rose 7 basis points to 4.27%.

The number of Fed rate cuts implied by futures pricing was pared slightly. However, there remains five rate cuts fully priced for 2024, beginning May.

Moves in Aussie bond futures were more muted, reflecting that domestic markets have not moved as aggressively towards rate cuts. Both the 3-year and the 10-year (futures) yield rose 1 basis point to 4.05% and 4.47%, respectively.

Interest rate markets are ascribing virtually no chance of a rate hike from the Reserve Bank (RBA) at its meeting later today. There is around a 25% chance of another rate hike priced in for the first half of next year. Expectations for rate cuts have been pulled forward recently alongside movements in the US. Market pricing implies an 80% chance of a rate cut by the end of 2024.

Foreign Exchange: The US dollar firmed on the back of stronger yields, gaining against every G-10 currency. The DXY index rose from a low of 103.07 to a high of 103.85 and is currently trading around 103.69.

The Aussie dollar underperformed, finishing lower after briefly touching a 4-month high of 0.6691 in early trade. The AUD/USD pair fell to a low of 0.6605, holding above the key 0.6600 level to close around 0.6618.

Commodities: The price of oil continued to slide despite comments from Saudi Arabia's Prince Abdulaziz bin Salman that OPEC+ supply cuts can continue beyond Q1 2024. A softening demand outlook is driving prices lower.

Gold pipped an all-time high yesterday, reaching US$2,135 an ounce. However, the precious commodity couldn't hold onto gains, sliding sharply to finish the day lower at US$2,028 an ounce. The wild session marked the widest daily trading range for gold since August 2020.

Australia: The RBA Board meets today for its final meeting of 2023. It's widely expected the Board will leave the cash rate unchanged at 4.35% given recent economic data has done little to suggest that the trajectory of the economy, and in particular inflation, is above what's implied by the RBA's forecasts.

Business profits declined 1.3% in the September quarter, driven by a 7.7% fall in mining profits. However, the detail points to resilience in the non-mining sector where profits rebounded by 3.4% in the quarter, to be 15.7% higher in annual terms.

Wages grew by a strong 2.7% over the quarter, supported by the Fair Work Commission (FWC) award wage decision which came into effect from 1 July.

Mining inventory rebounded sharply, more than reversing the fall recorded last quarter. Total inventories grew by 1.2% in the quarter, which is expected to contribute 0.9 percentage points to growth in the September quarter. This was stronger than expected and presents upside risk to Wednesday's National Accounts.

The mining sector continues to be impacted by commodity prices coming off their recent peaks. But the non-mining sector is showing resilience, with profits and sales stabilising over the quarter.

The value of new housing finance (excl. refinancing) rose 5.4% in October, the largest monthly jump since May. In annual terms lending activity turned positive for the first time since April 2022, rising 4.9% over the year to October.

An upswing in housing finance has coincided with the recovery in dwelling values since early 2023. This reflects resilient housing demand, which alongside constrained supply has been an important component of price appreciation, despite higher borrowing rates.

New lending grew strongly for both owner-occupiers (5.6%) and investors (5.0%) in October. Investor lending has outperformed throughout the current upswing.

The rise in owner-occupier borrowing has been spearheaded by the established housing market, while lending for dwelling construction has lagged. However, we are now seeing clearer signs dwelling construction finance is stabilising. In October, new finance for dwelling construction jumped 9.1% - the biggest rise since January 2021.

The Melbourne Institute monthly inflation gauge rose 0.3% in November. Annual growth slowed to 4.4% from 5.1% in October.

Eurozone: The Sentix investor confidence index lifted to -16.8 in December from -18.6 in November, falling just short of expectations for a reading of -15.6. Sentiment remains historically weak despite this being the strongest reading in seven months.

United States: October durable goods orders were finalised unchanged at -5.4%. Excluding the volatile defence and air components, capital goods orders were down just 0.3% in the month, slightly weaker than the preliminary reading of -0.1%.

Today's key data and events:

AU Balance of Payments Q3 (11:30am)
Current Account exp $1.0bn prev $7.7bn
Net Export Contrib. to GDP exp -0.4ppts prev +0.8ppts
AU RBA Policy Decision (2pm)
Cash Rate Target exp 4.35% prev 4.35%
CH Caixin Serv. PMI Nov exp 50.7 prev 50.4 (12:45pm)
EZ HCOB Serv. PMI Nov Final exp 48.2 prev 48.2 (8pm)
UK Markit Serv. PMI Nov Final exp 50.5 prev 50.5 (8:30pm)
EZ PPI Oct y/y exp -9.5% prev -12.4% (9pm)
US ISM Non-Mfg Nov exp 52.3 prev 51.8 (2am)

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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