Morning report

Bank of Melbourne

Wednesday, 6 December 2023

Equities (close & % change)		
S&P/ASX 200	7,062	-0.9%
US Dow Jones	36,136	-0.2%
Japan Nikkei	32,776	-1.4%
China Shanghai	3,116	-1.7%
German DAX	16,533	0.8%
UK FTSE100	7,490	-0.3%
Commodities (close & change)		
CRB Index	266.3	-1.3
Gold	2,019.51	-9.9
Copper	8,269.75	-112.0
Oil (WTI futures)	72.57	-0.5
Coal (thermal)	134.50	-0.8
Coal (coking)	332.33	-0.3
Iron Ore	129.00	-0.1

Sydney Futures Exchange (last & change)	Last		Overnight Chg	
10 yr bond	4.32		-0.11	
3 yr bond	3.90		-0.10	
3 mth bill rate	4.35		0.00	
SPI 200	7,108.0		31	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	61.7	-	-	61.7
AUD/USD	0.6618	0.6623	0.6544	0.6555
AUD/JPY	97.47	97.52	96.27	96.52
AUD/GBP	0.5239	0.5244	0.5191	0.5207
AUD/NZD	1.0732	1.0748	1.0680	1.0696
AUD/EUR	0.6109	0.6113	0.6055	0.6077
AUD/CNH	4.7310	4.7350	4.6899	4.7035
USD Index	103.66	104.09	103.55	104.06

Interest rates (close & change)		
Australia		
90 day BBSW	4.38	0.01
2 year bond	4.08	-0.04
3 year bond	3.99	-0.04
3 year swap	4.08	-0.15
10 year bond	4.41	-0.03
United States		
3-month T Bill	5.20	-0.01
2 year bond	4.57	-0.06
10 year bond	4.17	-0.08
Other (10 year yields)		
Germany	2.25	-0.11
Japan	0.67	-0.03
UK	4.03	-0.17

Data as at 7.15am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Bond markets rallied overnight, as markets continue to expect the central banks in the major economies to start rate-cutting cycles in 2024.

Share Markets: US share markets are currently mixed, ahead of the close. The S&P 500 index is unchanged, but the Dow is down 0.2% on yesterday's close while the Nasdaq is 0.3% higher.

Interest Rates: US bonds resumed their rally (i.e. bond yields fell) after a weak JOLTS report reinforced market expectations that the Fed may soon embark on a rate-cutting cycle. UK and German bond markets had rallied before the New York open. US treasury yields fell across the curve; the US 2-year yield fell 6 basis points and the US 10-year yield declined 8 basis points to 4.17% - the lowest rate since September 1.

Foreign Exchange: After hitting a fresh 4-month high of 0.6691 early this week, the AUD has run out of puff and sold off against the USD. We had been warning that the AUD/USD is unlikely to break above the topside of its recent trading range in the near term. The sell off in the AUD/USD pair has continued overnight with a low of 0.6544 recorded. In other notable moves, EUR/USD broke under 1.0800 and technical suggest a further depreciation in the near term could ensue, which has provided AUD/EUR a modest kick up.

Commodities: Gold continued to unwind after hitting a record high in Friday night's trading session. Other key commodity prices also fell.

Australia: The Reserve Bank (RBA) Board left the cash rate unchanged at 4.35% – its highest level in 12 years. The Board is clearly in the calibration phase of the hiking cycle, leaving the cash rate unchanged on five separate occasions over the past six meetings.

Since increasing the cash rate by 25 basis points in early November, the flow of economic data has been limited. Retail trade was weaker than expected, recording a decline in October. The monthly inflation read surprised to the downside and the unemployment rate ticked up. Other partial activity indicators provided mixed signals on the health of the economy.

The strong September quarter wage price index (WPI) was also released in the inter-meeting period. Like us, the RBA attributes most of the strong outcome to the Fair Work Commission's minimum and award wage determination. Beyond that, wage pressures appear to be moderating and remain consistent with the inflation target, provided we see a recovery in productivity growth.

Given the data offered little by way of material surprises, the RBA Board is buying time to assess the impact of previous rate rises on the economy. Importantly, since the Board last met there has been little new information the evolution of services inflation.

The Board is alert to the risk that growth in the prices of services remains elevated, particularly if labour costs continue to grow strongly. This has been the experience of other major economies, supporting the need to proceed with caution.

Our Group view remains that this is the peak in the cash rate, however, we do not rule out the possibility of another tap on the brakes in the first half of next year. The RBA Board has made it clear that it will not hesitate to respond to emerging upside risks.

In data yesterday, the current account balance fell into deficit in the September quarter for the first time in a year. Australia recorded a $0.2 billion deficit, a $7.9 billion narrowing compared to the June quarter. This marks only the second deficit in 4½ years. The turnaround reflected a narrowing of the trade surplus due to a 2.1% fall in the value of exports and a 3.3% increase in import values. The net income balance, the other key component, was largely unchanged.

In volume terms (i.e. stripping out price effects), exports declined 0.7% and import volumes rose 2.1% in the quarter. Net exports are, therefore, expected to detract 0.6 percentage points from GDP growth in the September quarter.

We expect the economy expanded 0.5% in the September quarter. This would correspond to a 1.9% annual increase. While below trend, this represents a reasonably robust pace of growth, given the headwinds facing the economy.

China: China's services activity expanded at a quicker pace in November. The Caixin purchasing managers' index (PMI) for services rose 1.1 points to a 3-month high of 51.5 in November. Service providers were upbeat about business activity over the year ahead in November and the degree of positive sentiment picked up for the first time in five months.

Moody's cut China's credit outlook to negative, citing downside risks from burgeoning government debt. It kept a long-term sovereign rating of A1.

Eurozone: The producer price index for the eurozone region rose 0.2% in October, in line with consensus expectations. The annual rate of contraction improved from 12.4% in September to 9.4% in October.

The European Central Bank Eurozone Consumer Expectations Survey saw inflation expectations unchanged with 1-year at 4.0%, a tad above consensus expectations. The 3-year was 2.5% and in line with expectations.

United States: Job openings fell in October to the lowest level since March 2021, according to the JOLTS report. The number of positions decreased to 8.7 million from a downwardly revised 9.4 million in September.

The ISM services index picked up to 52.7 from 51.8. A reading above 50.0 indicates that services activity is expected to expand in coming months.

Today's key data and events:

AU GDP Q3 (11:30am)
q/q exp 0.5% prev 0.4%
y/y exp 1.9% prev 2.1%
UK Construction PMI Nov exp 46.7 prev 45.6 (8:30pm)
EZ Retail Sales Oct exp 0.2% prev -0.3% (9pm)
US ADP Employment Nov exp 130k prev 113k (12:15am)
US Trade Oct -$64.2bn prev -$61.5 bn (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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