

Morning Report

Friday, 1 December 2017



Bank of Melbourne

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5969.9	-0.7%	Last		Overnight Chg			Australia		
Dow Jones	24272.4	1.4%	10 yr bond	97.46	-0.03			10 year bond	2.53	0.06
Nikkei	22725.0	0.6%	3 yr bond	98.06	-0.02			3 year bond	1.93	0.05
Hang Seng	29177.4	-1.5%	3 mth bill rate	98.24	-0.01			90 day BBSW	1.74	0.01
Shanghai	3474.0	-0.6%	SPI 200	6008	22			United States		
DAX	13024.0	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.41	0.02
FTSE100	7326.7	-0.9%	TWI	63.6	-	-	63.6	2 year bond	1.78	0.02
Commodities (close & change)			AUD/USD	0.7577	0.7595	0.7557	0.7564	3-month T Bill	1.23	-0.04
CRB Index	189.2	-1.7	AUD/JPY	84.71	85.18	84.65	85.12	Other (10 year yields)		
Gold	1274.7	-9.2	AUD/GBP	0.5645	0.5653	0.5590	0.5594	Germany	0.37	-0.02
Copper	6739.5	2.0	AUD/NZD	1.0994	1.1094	1.0988	1.1066	Japan	0.04	0.01
Oil (WTI)	57.4	0.1	AUD/EUR	0.6389	0.6404	0.6349	0.6357	UK	1.33	-0.01

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Reuters, Bloomberg.

Share Markets: Share markets were drooling over the prospects that tax cuts might finally pass in the US. The Dow Jones finished up 332 points or 1.4% and the S&P 500 index closed up 22 points (or 0.8%).

Interest Rates: US 10-year treasury yields rose from 2.39% to a one-month high of 2.42% and 2-year yields rose from 1.77% to 1.79%. Fed fund futures yields continued to price the chance of a December rate hike at 100%. News Senator McCain would now vote yes for the US tax reform bill moved bond yields higher. McCain was a key player in July's collapse of the Republican effort to dismantle Obamacare.

Foreign Exchange: The US dollar index is down slightly overnight. EUR/USD rose from 1.1809 to 1.1931 amid signs of improvement in negotiations on the Brexit divorce bill (GBP was the best performing currency yesterday). USD/JPY rose from 112.00 to 112.64 - the safe-haven yen underperforming. AUD/USD eked a sideways range of 0.7557-0.7595. NZD/USD similarly ranged between 0.6833 and 0.6870 - preserving business confidence-related losses. AUD/NZD shed some of its earlier gains, slipping from 1.1092 to 1.1040.

Commodities: OPEC and its allies outside of the group agreed to keep oil production cuts until the end of 2018. The decision helped push oil prices slightly higher overnight.

Australia: Private capital expenditure (capex) data

showed that the recovery in business investment is continuing. Capex grew 1.0% in the September quarter and June quarter's capex was revised up to 1.1% growth. Mining capex was unchanged, but non-mining capex rose 1.5% in Q3. Non-mining capex is now nearly 15% higher from its low point struck in Q1 of 2013.

The capex survey provided the fourth estimate for spending plans in 2017/18. This estimate stood at \$109.8 billion, which is 1.6% higher than the same estimate a year ago. This estimate also implies an upgrade to capex for both mining and non-mining investment spending compared to the third estimate (last quarter). The upgrades were strongest for non-mining investment.

Dwelling approvals rose by 0.9% in October. A sharp rise in approvals in Victoria of 24.3% drove the overall national result higher. Over the past three months, dwelling approvals are up 4.1%. Low interest rates and firm population growth are helping to support dwelling approvals. The trend in building approvals suggests that the decline in residential construction will be slow and gradual.

Credit to the private sector rose by 0.4% in October, taking annual growth to 5.3%. Housing credit grew by 0.5% in the month and by 6.5% in the year to October. Credit to businesses grew 0.3% in October to be 4.0% higher over the year. Business credit continues to lag the growth suggested by business conditions and business confidence. Personal credit

growth remained soft; it was flat in October and 0.9% weaker on a year ago.

China: The manufacturing purchasing managers' index (PMI) rose from 51.6 in October to 51.8 in November. It is a strong result in comparison to the results of the past twelve months. Importantly, the result is above 50.0, suggesting continued expansion in the manufacturing sector. The non-manufacturing PMI result for November was also above 50.0 and an improvement; it rose from 54.3 in October to 54.8 in November.

Japan: Industrial production rose by 1.5% in October, more than reversing a 1.0% decline in September. Annual growth lifted to 5.9% in October.

Europe: The unemployment rate for the Eurozone region edged down from 8.9% in September to 8.8% in October.

The advance estimate for core consumer prices rose by 0.9% in the year to November, the same pace as in the previous month. The headline rate was firmer, running at an annual 1.5% pace in November.

European Central Bank's Praet said overnight that a solid, broad-based recovery in the euro zone region is continuing.

New Zealand: Building permits dropped 9.6% in October, after a fall of 2.3% in September.

United Kingdom: House prices rose just 0.1% in November, according to Nationwide. It left the annual growth rate steady at 2.5%.

There were overnight reports that the UK is close to a Brexit deal on the Irish border.

United States: Personal spending lifted 0.3% in October while personal incomes grew by 0.4%. The personal spending rise in October was a solid result because it followed a 0.9% rise in September where this September rise was the strongest in eight years. This data then provides evidence of some good momentum behind US consumer spending.

The core personal consumption expenditure (PCE) deflator rose 0.2% in October and stayed steady at 1.4% annually. The headline PCE deflator ran at a faster pace of 1.6% in October, but is still below the Federal Reserve's target for inflation of 2% per annum. Furthermore, it slipped from an annual pace of 1.7% in the previous month.

While inflation growth remains weak, the labour market continues to show further tightening. Initial jobless claims slipped 2k to 238k for the week ending November 25.

In other data, the Chicago PMI fell from 66.2 in October to a three-month low of 63.9 in November. It is still a very strong reading, as it remains above the 50.0 level, indicating improving conditions.

In a speech overnight, Federal Reserve's Kaplan said that it was wise for the Fed to take the next step on tightening in the near future. He also suggested that the Fed will hit its inflation target in the medium term.

A sweeping Republican-sponsored tax overhaul gained momentum in the US Senate last night with the backing of Senator John McCain, as party leaders held behind-the-scenes negotiations to try to secure enough votes for passage.

Today's key data and events

NZ Terms of Trade Q3 exp 1.3% prev 1.5% (8:45am)
 AU AiG Perform of Mfg Index Nov prev 51.1 (9:30am)
 AU CoreLogic House Prices Nov prev 0.0% (10am)
 JN Jobless Rate Oct exp 2.8% prev 2.8% (10:30am)
 JN CPI Oct y/y exp 0.2% prev 0.7% (10:30am)
 JN Cap. Spend'g Q3 y/y exp 3.2% prev 1.5% (10:50am)
 CH Caixin PMI Mfg Nov exp 50.9 prev 51.0 (12:45pm)
 EZ Markit Mfg Idx Nov Final exp 60.0 prev 60.0 (8pm)
 UK Markit PMI Mfg Nov exp 56.5 prev 56.3 (8:30pm)
 US Federal Reserve's Bullard Speech (1:05am)
 US Federal Reserve's Kaplan Speech (1:30am)
 US Markit PMI Mfg Nov F exp 54.0 prev 53.8 (1:45am)
 US ISM Mfg Index Nov exp 58.3 prev 58.7 (2am)
 US Const'n Spending Oct exp 0.5% prev 0.3% (2am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are house forecasts and for other countries are consensus forecasts.

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