Morning report

Friday, 1 December 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,087	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,951	1.5%	10 yr bond	4.51		0.09		90 day BBSW	4.37	-0.02
Japan Nikkei	33,487	0.5%	3 yr bond	4.09		0.07		2 year bond	4.11	0.01
China Shanghai	3,177	0.3%	3 mth bill rate	4.39		0.01		3 year bond	4.01	0.00
German DAX	16,215	0.3%	SPI 200	7,085.0		-9		3 year swap	4.30	0.10
UK FTSE100	7,454	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.41	0.05
Commodities (close & change)			TWI	61.4	-	-	61.4	**United States**		
CRB Index	273.6	-1.8	AUD/USD	0.6614	0.6650	0.6571	0.6607	3-month T Bill	5.24	0.00
Gold	2,036.44	-7.8	AUD/JPY	97.43	98.11	97.24	97.95	2 year bond	4.70	0.05
Copper	8,365.50	-50.0	AUD/GBP	0.5211	0.5245	0.5209	0.5234	10 year bond	4.33	0.07
Oil (WTI futures)	75.55	-2.3	AUD/NZD	1.0752	1.0767	1.0726	1.0731	**Other (10 year yields)**		
Coal (thermal)	132.15	4.3	AUD/EUR	0.6028	0.6081	0.6028	0.6071	Germany	2.45	0.02
Coal (coking)	330.00	1.0	AUD/CNH	4.7254	4.7427	4.7022	4.7218	Japan	0.67	0.00
Iron Ore	129.20	-0.4	USD Index	102.86	103.59	102.72	103.54	UK	4.18	0.08

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 bond yields were higher across the curve despite confirmation that inflation continues to come down in the US. This could be due to recent hawkish comments by Fed officials. The US dollar was higher supported by higher yields, while the Aussie was broadly unchanged. Stock markets ended mixed on the day. The price of oil declined as the OPEC+ meeting disappointed traders.

Share Markets: Stock markets ended mixed on the day. The S&P 500 closed 0.4% higher to finish 8.9% higher over the month of November – the biggest monthly gain in more than a year.

The Dow Jones finished 1.5% higher, assisted by Salesforce which reported better-than-expected results and raised its outlook. The Dow finished the month of November around 8.8% higher.

The Nasdaq was 0.2% lower but surged 10.7% higher over the month. Stock valuations were supported by a steep drop in bond yields in recent weeks.

The ASX 200 finished 0.7% higher yesterday. Nine sectors were higher, led by financials. Futures are pointing to a soft open today.

Interest Rates: US bond yields were higher across the curve. The US 2-year treasury yield increased 5 basis points, to 4.70%. The 2-year yield has fallen from a peak of 5.26% in around a month and a half.

The 10-year yield was 7 basis points higher, at 4.33%. The 10-year yield is down from a peak of 5.02% in mid-October.

Interest-rate markets are pricing 4.5 cuts from the Fed through 2024, with the first cut fully priced by May.

Australian government bond yields (futures) followed moves in the US. The 3-year (futures) yield increased 7 basis points, to 4.09%. The 10-year (futures) yield was 9 basis points higher, at 4.51%.

Interest-rate markets are pricing around a 25% chance of another hike from the RBA by mid-2024. This is down from around 60% earlier in the week and comes on the back of a weaker-than-expected inflation outcome for October.

Foreign Exchange: The US dollar was higher supported by higher yields. The USD Index traded between a low of 102.72 and a high of 103.59. It closed around its high - at 103.54.

The AUD/USD was broadly unchanged. It fell from a high of 0.6650 to a low of 0.6571 but recovered to be above the key 0.6600 level. It was trading at 0.6607 at the time of writing.

Commodities: Oil decline overnight as the OPEC+ meeting disappointed traders. OPEC+ agreed to make additional cuts of 1 million barrels a day, alongside the extension of Saudi Arabia's voluntary reduction of the same size. However, this agreement was not explicitly in the communique with reports suggesting that Angola rejected the new quota and will produce above the target.

The price of copper, gold and iron ore also declined on the day.

Australia: National house prices increased by 0.6% in November, reaching a new record high. The monthly gain was the smallest since February this year, when prices started to rise after falling for much of 2022.

New private capital expenditure (capex) increased 0.6% in the September quarter, to be 10.7% higher in annual terms. In annual terms, spending on machinery was 7.4% higher, while spending on new buildings was 13.7% higher.

The mining sector led the increase with spending up 5.6% over the quarter. There were pockets of strength in the non-mining sector. Spending by the construction industry, mainly on machinery, was up 15.1%, while spending by the education industry increased 22.7%.

Machinery and equipment have become more readily available as supply chain disruptions are resolved. Now, prices are also coming down, falling by 0.2% over the quarter – the first decline since the September quarter 2017 outside of COVID. Prices look to be turning a corner and could encourage businesses to invest going forward.

While a weak outlook for consumer spending is no doubt holding investment down, opposing forces are at work. Record population growth, strong business balance sheets and elevated and growing spending on infrastructure are all supporting capex.

Consistent with this, capex plans were again revised higher. After adjusting for survey bias, we estimate that the total amount spent on capex will grow by around 9.0% in 2023-24. After adjusting for expected price growth, we estimate that capex will be around 4.0% higher in 2023-24.

Private sector credit expanded 0.3% in October, stepping down from the 0.5% increase in September. In annual terms, credit growth slowed from 5.0% to 4.8%. Overall, credit growth is running around long-run average levels after normalising from strong growth for much of 2022.

A step down in the pace of business credit growth was evident in October. Business credit rose 0.3% in the month following monthly readings of 0.6% and 0.8% in August and September, respectively. Annual growth in business credit slowed to 6.4%, comfortably above average.

Elevated capacity utilisation and resilient demand are incentivising businesses to invest, which has supported credit growth. Labour costs have also increased, nudging businesses towards productivity enhancements, including through higher investment.

Housing credit has found a consistent rhythm, growing between 0.3% and 0.4% per month for the past 14 months. October was no exception, housing credit rose 0.4% to be 4.2% higher through the year, both numbers were unchanged from September.

Owner-occupier and investor lending have settled at a similar tempo since the middle of the year. Owner-occupier credit rose 0.4% in October, while investor lending was up 0.3%. Over the past 12-months investor lending has lagged somewhat, reflecting greater sensitivity to higher interest rates.

Strong demand for housing will likely keep the steady but moderate rate of housing credit growth well entrenched. The outlook for business credit growth is less clear. Strong incentives to invest will continue to provide a tailwind, but higher rates and a gradually slowing economy are expected to push in the opposite direction.

The number of dwellings approved rose 7.5% in October, following a 4.0% decline in September. The monthly increase was driven by private medium and high-density dwellings, which increased 19.5%, following a 3.4% fall in September. Approvals increased in WA, Queensland, and NSW. Declines were recorded in Tasmania, South Australia, and Victoria. Notwithstanding the monthly increase, approvals are well down from recent peaks and continue to bounce around low levels.

China: The NBS Non-Manufacturing Purchasing Managers Index (PMI) declined to 50.2 index points in November, from 50.6 points in October. This was softer than the 50.9 points the market was expecting. On prices, input cost fell for the second straight month, while selling prices experienced the largest monthly drop since June this year.

The NBS Manufacturing PMI edged down to 49.4 index points in November, from 49.5 points in October. This was softer than the 49.8 points the market was expecting and was the weakest print since June this year. New orders declined, with foreign sales falling the most in four months. On the cost side, input price inflation eased to a five-month low, while output prices dropped for the second consecutive month.

New Zealand: The Business Outlook Index jumped to 30.8 index points in November, from 23.4 points in October. The result marked the third straight month of positive figures. The activity outlook strengthened, with intentions for exports and investment improving. Inflation expectations also moderated across the business community.

The number of buildings approved jumped by 8.7% in October, following a 4.6% drop in September. However, over the year to October, the number of new dwellings approved was 21% lower than the corresponding period a year ago. This shows that in underlying terms, approvals remain weak.

Japan: Industrial production increased by 1.0% over the month of October, accelerating from growth of 0.5% recorded in September. This was the second consecutive month of expansion, driven by higher production in electronic parts and devices, motor vehicles, electrical machinery, and information and communication electronics equipment.

Eurozone: The annual headline inflation rate declined to 2.4% in November, the lowest level since July 2021. It was softer than the 2.7% the market was expecting. The core rate, which excludes volatile food and energy prices, also cooled to 3.6%, its lowest point since April 2022 and below the 3.9% the marklet was expecting. On a monthly basis, prices fell 0.5% in November, the largest monthly decline since January 2020.

United States: The core personal consumption expenditures (PCI) price index, which strips out the volatile food and energy components, increased 0.2% in October, down from the 0.3% recorded in September and in line with market expectations. In annual terms, core PCE was 3.5% higher.

The headline PCE was unchanged due to lower-than-expected energy prices. This was softer than the 0.1% the market was expecting. On an annual basis, the headline measure is running at 3%, the lowest rate since March 2021.

Personal spending rose 0.2% in October, following a 0.7% increase in September. The outcome was in line with market expectations. Spending on services increased by 0.4%. Conversely, spending on goods fell by 0.2%.

Personal income increased 0.2% in October. This was the smallest gain in four months and consistent with market expectations. A slowdown was seen in compensation for employees. On the other hand, personal income receipts from interest and dividends increased.

Pending home sales declined 1.5% over the month of October, to be 8.5% lower in annual terms. The outcome was broadly in line with the fall of 2.0% the market was expecting, given downward revisions to last month's outcome.

The Chicago PMI climbed to 55.8 index points in November, from 44.0 points in October. This was much stronger than the 46.0 points the market was expecting. It was the first month of growth in Chicago's economic activity since August 2022.

Today's key data and events:

AU CoreLogic Dwelling Prices Nov (12:01am)
CH Caixin Mfg PMI Nov (12:45pm)
JN Jobless Rate Oct prev 2.6% (10:30am)
NZ Consumer Confidence Nov prev 88.1 (8:00am)
UK S&P Global Mfg PMI Nov Final (8:30pm)
US S&P Global Mfg PMI Nov Final (1:45am)
US Construction Spending Oct (2:00am)
US ISM Mfg Nov (2:00am)

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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