Morning report

Bank of Melbourne

Monday, 1 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,324	-1.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,820	0.2%	10 yr bond	98.07		0.18		90 day BBSW	0.07	0.01
Japan Nikkei	28,893	0.3%	3 yr bond	98.68		0.08		2 year bond	0.78	0.24
China Shanghai	3,718	0.8%	3 mth bill rate	99.87		0.01		3 year bond	1.22	0.10
German DAX	15,689	0.0%	SPI 200	7,348.0		68		3 year swap	1.35	-0.06
UK FTSE100	7,238	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.09	0.24
Commodities (close & change)*			TWI	62.9	-	-	63.1	**United States**		
CRB Index	237.7	0.0	AUD/USD	0.7541	0.7555	0.7500	0.7513	3-month T Bill	0.05	0.00
Gold	1,783.38	-15.5	AUD/JPY	85.65	85.87	85.32	85.74	2 year bond	0.50	0.01
Copper	9,728.50	-87.0	AUD/GBP	0.5467	0.5499	0.5456	0.5491	10 year bond	1.55	-0.03
Oil (WTI)	83.57	0.8	AUD/NZD	1.0474	1.0528	1.0468	1.0494	**Other (10 year yields)**		
Coal (thermal)	129.20	-15.8	AUD/EUR	0.6456	0.6511	0.6441	0.6495	Germany	-0.11	0.03
Coal (coking)	373.50	-4.2	AUD/CNH	4.8184	4.8254	4.8052	4.8135	Japan	0.10	0.01
Iron Ore	107.45	1.3	USD Index	93.4	94.3	93.3	94.1	UK	1.03	0.03

Data as at 7:00am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US equity markets rose on Friday despite weaker-than-expected earnings results from Amazon and Apple. Inflation concerns remain on the minds of investors as US bond yields fluctuated. The US dollar strengthened against major currencies.

Share Markets: The S&P 500 rose to a record high despite weaker-than-expected earnings results from Amazon and Apple. The index gained 0.2% on the day, to be 6.9% higher for the month of October. This was the highest monthly gain since November 2020. The Nasdaq rose 0.3% and the Dow Jones was 0.2% higher.

Interest Rates: Interest rates fluctuated as inflation concerns remain front of mind for investors.

The US 10-year Treasury yield was 3 basis points lower at 1.55%. However, it fluctuated between a low of 1.53% and a high of 1.62% during trading. The 2-year yield rose by 1 basis point to 0.50%. It fluctuated between 0.47% and 0.55% during trading.

Australian physical bond yields spiked further on Friday as the market continued to digest implications of stronger-than-expected underlying inflation data. The 3-year bond yield rose 10 basis points to 1.22% and the 10-year bond yield spiked 24 basis points to 2.09%. The 3-year bond yield has risen by more than 40 basis points since the publication of stronger-than-expected underlying inflation data last week. The yield on the April 2024 bond rose further to 0.78%, well above the Reserve Bank's target of 0.10%.

Foreign Exchange: The US dollar rose against a basket of major currencies. The USD Index was 0.8% higher. It rose from a low of 93.3 to a high of 94.3, before settling at 94.1.

The AUD/USD pair fell from a high of 0.7555 to a low of 0.7500, before recovering to around 0.7513.

Commodities: Gold, copper and coal were all lower. Oil and iron ore were both slightly higher.

COVID-19: NSW recorded 177 new cases and one death yesterday. Victoria recorded 1,036 new cases and 12 deaths. Elsewhere, the ACT recorded seven new cases.

Australia: Credit growth remained robust in September, even though Sydney and Melbourne were still in lockdown. Credit to the private sector grew by 0.6% in the month, following 0.6% growth in August. In annual terms, credit growth rose to 5.3%, the highest rate since 2017.

Business credit continued to expand at a solid clip, increasing 0.7% in September, and has held up well so far through the Delta disruption. Encouragingly, demand for hardship assistance has declined as restrictions have eased.

Business confidence has been resilient relative to early in the pandemic, while vaccines and reopening roadmaps have provided comfort that lockdowns will come to an end.

Housing credit grew 0.6% in September to be 6.5% higher over the year, marking the highest annual growth rate since October 2017. Even though lockdowns have trimmed activity in the housing market temporarily, underlying demand remains strong.

Earlier this month, APRA took steps to temper housing risks by raising the mortgage serviceability buffer from 2.5 to 3 percentage points. However, in APRA's own words, the policy is likely to have a 'modest' impact.

We expect the economy will begin to recover as restrictions ease in NSW and Victoria over the December quarter. Promisingly, card spending and mobility data suggest consumers have opened their wallets after lockdowns lifted. Once the recovery takes a firmer hold, we expect the pick up in activity will flow through to greater demand for credit

In other data, retail spending bounced back in September as some lockdown restrictions eased in NSW. Sales also increased in states and territories that were not in lockdown, particularly Queensland.

Sales rose 1.3% in the month, to be 6.9% above pre-COVID levels. The monthly increase follows three consecutive months of falls as Delta-related lockdowns impacted sales across the country.

Queensland sales increased strongly (5.2%) to their highest ever levels, boosted by reopening after short lockdowns in prior months. Sales also bounced back in NSW (2.3%). While the state was still in lockdown, some restrictions eased, including allowing picnics.

Sales continued to fall in Victoria (-2.1%) and the ACT (-12.0%) as both remained in lockdown. In Victoria, sales were at their lowest level since October 2020. In the ACT, sales have fallen sharply over the past two months (down almost 30%) and are at their lowest levels since March 2015.

Looking forward, the economy is on a good footing to recover from the Delta outbreak. Sales are expected to continue to bounce back as restrictions have now eased across NSW, Victoria and the ACT. Restrictions are expected to continue to ease through the December quarter as each state and territory hits the vaccination targets.

China: Energy shortages and high commodity prices continued to impact economic activity, which slowed in October. Lockdowns to control rising case numbers also affected activity. Manufacturing activity contracted for a second consecutive month, with the manufacturing PMI falling to 49.2 in October. This was below consensus expectations and down from September's reading of 49.6.

Activity in the non-manufacturing sector also slowed but remained in expansionary territory.

Eurozone: The economy grew at a stronger-than-expected rate in the third quarter. GDP rose by 2.2% in Q3, above consensus expectations of 2.1%. Growth was stronger-than-expected in France and Italy. However, the result was overshadowed by a rise in inflation in the region. Inflation rose by 0.8% in October, to be 4.1% higher over the year to October. This was above consensus expectations of a 3.7% annual rise. Underlying inflation was also stronger-than-expected and rose to its highest level since 2002. It rose by 2.1% over the year to October, above expectations of 1.9%. European Central Bank President Christine Lagarde noted that rising energy prices, a recovery in demand and supply-chain disruptions are pushing inflation higher. The central bank expects these inflationary pressures to ease over the course of 2022.

New Zealand: Consumer Confidence fell 6.5 points to 98.0 in October, following 104.5 in September. Household's response to whether it was a good time to buy a major household item failed to rebound from its 20-point plunge last month and remained at -7. Inflation expectations soared from 5.1% in September to 6.7% in October.

United States: The employment cost index rose by 1.3% in Q3. This was above consensus expectations of 0.9%. The increase suggests that strong demand, amid an environment of labour shortages is putting upward pressure on wages.

Personal income fell by 1.0% in September. This reflected a decline in government pandemic-related social benefits, including unemployment and other benefits. Personal spending, accounting for more than two thirds of economic activity, rose by 0.6% in September, following a revised 1.0% increase in August. Services spending increased, driven by increased demand for healthcare, eating out and accommodation.

Inflationary pressures remained strong in September. The PCE deflator rose by 0.3% in the month, to be 4.4% higher over the year. The core PCE deflator, the Fed's preferred measure of inflation, rose by 0.2% in September, to be 3.6% higher over the year.

The University of Michigan's consumer sentiment survey rose to 71.7 in October. It remains at low levels after a surprising fall in August.

The Chicago PMI rebounded to 68.4 in October. Up from 64.7 in September and above consensus expectations of 63.7. Prices rose to their highest level since 1979. New orders and employment were also higher.

Today's key data and events:

AU CL Dwelling Prices Oct exp 1.4% prev 1.5% (10am)

AU MI Inflation Oct y/y prev 2.7% (11am)

AU ANZ Job Ads Oct prev -2.8% (11:30am)

Au Housing Finance (11:30am)

Total Sep exp -5.0% prev -4.3%

Owner-occupier Sep exp -5.5% prev -6.6%

Investor Sep exp -4.0% prev 1.5%

CH Caixin Mfg PMI Oct exp 50.0 prev 50.0 (12:45pm)

UK Markit Mfg PMI Oct Final exp 57.7 prev 57.7 (8:30pm)

US Const. Spending Sep exp 0.4% prev 0.0% (1am)

US ISM Mfg Oct exp 60.5 prev 61.1 (1am)

US Markit Mfg PMI Oct Final exp 59.2 prev 59.2 (1:45am)

Times are AEDT. 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.

Jarek Kowcza, Senior Economist

Ph: 0481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Research Assistant (Secondment)
Sonali Patel
sonali.patel@bankofmelbourne.com.au
(02) 8254 0030