

Tuesday, 2 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,371	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	35,914	0.3%	10 yr bond	98.05			-0.02	90 day BBSW	0.06	-0.01
Japan Nikkei	29,647	2.6%	3 yr bond	98.82			0.00	2 year bond	0.71	-0.07
China Shanghai	3,715	-0.1%	3 mth bill rate	99.87			-0.01	3 year bond	1.01	-0.22
German DAX	15,806	0.7%	SPI 200	7,360.0			13	3 year swap	1.27	-0.02
UK FTSE100	7,289	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.91	-0.18
Commodities (close & change)*			TWI	63.1	-	-	63.0	United States		
CRB Index	239.2	0.0	AUD/USD	0.7513	0.7536	0.7486	0.7519	3-month T Bill	0.04	-0.01
Gold	1,793.28	9.9	AUD/JPY	85.74	86.06	85.61	85.71	2 year bond	0.50	0.00
Copper	9,728.50	-87.0	AUD/GBP	0.5491	0.5513	0.5483	0.5502	10 year bond	1.56	0.00
Oil (WTI)	83.89	0.3	AUD/NZD	1.0494	1.0504	1.0449	1.0459	Other (10 year yields)		
Coal (thermal)	120.75	-8.4	AUD/EUR	0.6495	0.6512	0.6476	0.6481	Germany	-0.10	0.00
Coal (coking)	372.67	-0.8	AUD/CNH	4.8135	4.8208	4.7936	4.8116	Japan	0.10	0.00
Iron Ore	98.35	-1.9	USD Index	94.1	94.3	93.9	93.9	UK	1.06	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: Markets were quiet ahead of this week's Fed meeting. US stocks edged higher while US treasury yields finished unchanged. The Reserve Bank (RBA) holds a highly anticipated meeting today. Markets are focused on the guidance around the timing of the first rate hike.

Share Markets: The S&P 500 rose 0.2% and the Dow increased 0.3% as markets digested corporate earnings and data. The ASX 200 rose 0.6%.

Interest Rates: US 10-year and 2-year treasury yields finished unchanged at 1.56% and 0.50% respectively.

Australian 10-year and 3-year (futures) yields were also little changed at 1.95% and 1.19% respectively. The yield on the April 2024 bond closed at 0.71%, still well above the RBA's 0.1% target.

Foreign Exchange: The AUD/USD pair remained within its range from the past couple of weeks, increasing from 0.7513 to 7519. The US dollar was weaker.

Commodities: Gold firmed while copper and iron ore slipped.

COVID-19: NSW recorded 135 new cases and four deaths yesterday. Victoria recorded 1,471 new cases and four deaths. Elsewhere, the ACT recorded five new cases and two deaths.

Yesterday marked the return of international travel for fully vaccinated Australian citizens and

permanent residents. Mandatory quarantine is now scrapped for Australian travellers returning via NSW and Victoria. Fully vaccinated Australian citizens and permanent residents may also leave Australia without an outwards travel exemption.

Australia: The RBA Board meets today. The meeting will be even more closely watched than usual because there is a possibility that the RBA will adjust its guidance around the timing of the first rate hike to flag the prospect of a move before 2024.

Pressure has been mounting on the RBA to drop the 2024 guidance after stronger-than-expected inflationary pressures. Markets are pricing in a rate hike for mid-2022. Notably, last week the RBA did not buy bonds to defend its three-year government bond yield target of 0.1%, even though the yield shot up to 0.78%. The yield curve target plays an important role in reinforcing the RBA's guidance that the cash rate won't increase until 2024. The RBA's decision to not to defend the target suggests a change in forward guidance could be imminent. If the RBA schedules a press conference after the meeting, this would point to a policy change.

Housing prices continued to advance in October, growing by 1.5%. Prices grew by 21.6% over the year. This is the strongest annual growth since 1989.

Momentum has eased since the monthly peak of

2.8% in March 2021. However, monthly price growth remains strong and well above the decade average of 0.4%. Early signs of a divergence across regions are emerging, as Perth prices fell (-0.1%) for the first time since June 2020.

In recent months, Delta lockdowns underpinned a fall in new listings, with restrictions in place for inspections and auctions in NSW and Victoria. As restrictions eased, listings have increased.

Other metrics of market strength, including auction clearance rates and vendor discounting rates remained above average. This suggests that demand remains strong.

By city, dwelling price growth was generally stronger in the smaller capital cities.

We expect dwelling prices to continue to increase for the remainder of 2021 and in 2022. However, momentum is likely to slow as affordability constraints weigh on buyers. A more material tightening in macroprudential policy is likely in the coming year, which would also dampen price growth.

Housing lending ex refinancing fell by 1.4% in September, marking the third decline in four months. The decline was led by falls in lending to Victorians. Indeed, excluding Victoria, lending would have been up 1.5% in the month.

Lending to Victoria contracted 8.8% in September, led by the deepest fall on record for loans to owner-occupiers of 12.7%. The fall illustrates that the extended lockdown in Victoria hit housing market activity. Notably, physical housing inspections were banned in Victoria.

There was also a divergence in the type of lending. Lending to owner occupiers ex refinancing fell by 2.7% in September – the fourth consecutive monthly drop. However, lending to investors lifted 1.4% in September and has risen for 11 straight months.

The divergence reflects the acceleration of investor lending activity. The share of investors of all loans, excluding refinancing, rose to 31.7% in September – the highest since April 2018.

The share of lending to first-home buyers dropped marginally in September to 30.3%, well down on last year's peak of 36.5% in January. Macroprudential tightening was introduced last month and could cause more first-home buyers to join the sidelines.

We expect affordability pressures, possible further macroprudential tightening and upward pressure

on fixed home loan rates will cause a slowdown in the growth rate of lending over the next 12–15 months.

Melbourne Institute annual headline inflation expectations rose to 3.1%, from 2.7% in October. Expectations for trimmed mean inflation increased to 2.8%, from 2.6%.

Separately, job advertisements rose 6.2% in October, bouncing back from a decline of 2.8% in September. The reading ends a three-month streak of declines and points to a tightening of the labour market, which is expected to translate to future upward pressure on wages growth.

China: The Caixin manufacturing purchasing managers' index (PMI) rose marginally to 50.6 in October, up from 50.0 in September. New orders rose to a four-month high. However, the outcome was at odds with China's official manufacturing PMI release on Sunday, which remained in contractionary territory and fell from 49.6 in September to 49.2 in October. The two series can diverge from one another, particularly in months with major Chinese holidays.

United Kingdom: The Markit manufacturing PMI for October was finalised at 57.8, in line with the preliminary reading and consistent with the level in September. Although the PMI remains in expansionary territory, the survey still referred to the severity of supply difficulties, while selling prices rose at a record pace.

United States: The ISM manufacturing index fell to 60.8 in October from 61.1. Supply challenges remain in focus as they constrain activity, add to delivery times and push up prices. New orders pulled back but employment ticked up.

The final Markit manufacturing PMI for October was marked down to 58.4 from the preliminary reading of 59.2.

Construction spending unexpectedly fell in September, declining 0.5% in the month, amid declines in outlays on both private and public projects.

Today's key data and events:

NZ Building Permits Sep prev 3.8% (8:45am)

AU RBA Board Meeting (2:30pm)

Cash Rate exp 0.10% prev 0.10%

AU RBA Deputy Governor Debelle Panel Participation
(4:50pm)

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.

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