

Wednesday, 3 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,324	-0.6%			Last	Overnight Chg		Australia		
US Dow Jones	36,053	0.4%	10 yr bond	98.17		0.08	90 day BBSW	0.06	0.00	
Japan Nikkei	29,521	-0.4%	3 yr bond	98.95		0.07	2 year bond	0.72	0.01	
China Shanghai	3,674	-1.1%	3 mth bill rate	99.92		0.00	3 year bond	0.95	-0.06	
German DAX	15,954	0.9%	SPI 200	7,360.0		71	3 year swap	1.13	-0.15	
UK FTSE100	7,275	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.89	-0.01
Commodities (close & change)*			TWI	63.0	-	-	62.8	United States		
CRB Index	239.2	0.0	AUD/USD	0.7519	0.7532	0.7420	0.7429	3-month T Bill	0.04	-0.01
Gold	1,787.76	-5.5	AUD/JPY	85.71	85.91	84.50	84.67	2 year bond	0.45	-0.05
Copper	9,958.00	229.5	AUD/GBP	0.5502	0.5517	0.5452	0.5458	10 year bond	1.55	-0.01
Oil (WTI)	83.08	-1.0	AUD/NZD	1.0459	1.0485	1.0406	1.0448	Other (10 year yields)		
Coal (thermal)	126.10	-0.4	AUD/EUR	0.6481	0.6494	0.6409	0.6416	Germany	-0.17	-0.06
Coal (coking)	371.50	-1.2	AUD/CNH	4.8116	4.8182	4.7512	4.7572	Japan	0.08	-0.02
Iron Ore	97.40	3.4	USD Index	93.9	94.1	93.8	94.1	UK	1.04	-0.02

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: The Reserve Bank has paved the way for earlier rate hikes after abandoning its yield curve target and dumping forward guidance that rates will not be raised until 2024. Meanwhile, US stocks rose to fresh highs alongside strong corporate earnings, and bond yields declined.

Share Markets: Major US stock indices broke new highs with the Dow and S&P 500 both up 0.4%. The ASX 200 declined 0.6%.

Interest Rates: The US 10-year treasury yield finished mostly unchanged at 1.55%, while the 2-year yield declined 5 basis points to 0.45%.

Australian 10-year and 3-year (futures) yields both fell 7 basis points to 1.85% and 1.06% respectively. The 3-year yield was driven down by the Reserve Bank's (RBA) policy announcement, which pushed back against the prospect of rate hikes in 2022.

Foreign Exchange: The AUD/USD pair fell from 0.7519 to 0.7429 – its lowest level in the past fortnight – following the RBA outcome, which was more dovish than some expected. The US dollar strengthened.

Commodities: Oil, coal and gold retreated, while iron ore firmed.

COVID-19: NSW recorded 173 new cases and four deaths yesterday. Victoria recorded 989 new cases and nine deaths. Elsewhere, the ACT recorded eight new cases.

The NSW Premier announced changes to the reopening roadmap which brings forward freedoms for vaccinated residents to 8 November and delays freedoms for unvaccinated residents until 15 December.

From 8 November for fully vaccinated NSW residents, there will be no cap on visitors in the home, businesses will move to density limits of one person per two square metres, nightclubs can reopen dance floors and stadiums can move to 100% capacity.

Australia: The RBA abandoned its yield curve target of 0.10% and dumped its forward guidance that rates will not be raised until 2024. These are significant shifts which pave the way for earlier rate hikes from the RBA.

The RBA's forecasts point to the first rate rise in 2023, but the central bank has left itself wiggle room to adjust to evolving circumstances.

We remain comfortable with our view that the hiking cycle will commence in early 2023. But we also think the risk of a late 2022 move is higher than it was a few months ago.

Ahead of the meeting, financial markets had aggressive tightening priced in for 2022; almost 4 rate hikes were fully priced in. The Governor pushed back against the notion of rate hikes in 2022, describing market pricing as an "overreaction" to recent inflation data. He said he

“still struggles” with scenarios for rate rises in 2022. The RBA remains committed to not raising the cash rate until inflation is sustainably within the 2–3% target range. However, the RBA dropped its language around the economy not meeting this condition until 2024.

The central bank upgraded its growth and inflation forecasts for 2022, setting up the economic framework for rate hikes before 2024. Forecasts for wages growth were also revised higher to 3% for 2023. The 3% rate is a key threshold; it’s a rate that policymakers believe wages need to grow at to help ensure inflation is sustainably in the target band.

The Governor stressed that the RBA is prepared to be “patient”, suggesting 2023 remains the most likely timing for the first rate hike.

New Zealand: Monthly residential building approvals fell 1.9% in September down from 3.8% growth in August. Despite the fall in the month, approvals remain 25% higher than a year ago.

United States: The Federal Open Markets Committee is widely expected to formally announce that it will start tapering its quantitative easing program at its November meeting (early tomorrow morning AEDT). We expect a reduction in purchases of \$15 billion per month from December, with the program concluding in mid-2022.

Today’s key data and events:

NZ Private Wages Ex. Overtime Q3 exp 0.8 prev 0.9% (8:45am)
 NZ Employment Q3 exp 0.4% prev 1.0% (8:45am)
 NZ Unemployment Rate Q3 exp 3.9% prev 4.0% (8:45am)
 AU Bldg. Approvals Sep exp -8.0% prev 6.8% (11:30am)
 CH Caixin Services PMI Oct exp 53.1 prev 53.4 (12:45pm)
 UK Nationwide House Prices Oct exp 0.3% prev 0.1% (6pm)
 EZ Markit Services PMI Oct Final exp 54.7 prev 54.7 (8pm)
 UK Markit/CIPS Services PMI Oct F. exp 58.0 prev 58.0 (8:30pm)
 EZ Unemployment Rate Sep exp 7.4% prev 7.5% (9pm)
 US ADP Employ. Chg. Oct exp 400k prev 568k (11:15pm)
 US ISM Non-Mfg Oct exp 62.0 prev 61.9 (1am)
 US Factory Orders Sep exp 0.1% prev 1.2% (1am)
 US Durable Goods Ord. Sep F. exp -0.4% prev -0.4% (1am)
 US Markit Serv. PMI Oct F. exp 58.2 prev 58.2 (1:45am)
 US FOMC Meeting Decision (5am)
 Federal Funds Rate exp 0.00% - 0.25% prev 0.00% - 0.25%

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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The Detail

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