Morning report

Bank of Melbourne

Friday, 5 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,428	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	36,124	-0.1%	10 yr bond	98.24		0.09		90 day BBSW	0.05	-0.01
Japan Nikkei	29,794	0.9%	3 yr bond	98.97		0.12		2 year bond	0.68	0.03
China Shanghai	3,696	0.8%	3 mth bill rate	99.93		0.01		3 year bond	0.97	0.04
German DAX	16,030	0.4%	SPI 200	7,419.0		20		3 year swap	1.11	-0.06
UK FTSE100	7,280	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.83	-0.02
Commodities (close & change)*			TWI	62.3	-	-	62.4	**United States**		
CRB Index	233.5	22.0	AUD/USD	0.7449	0.7471	0.7383	0.7398	3-month T Bill	0.03	-0.01
Gold	1,791.87	22.0	AUD/JPY	84.94	85.21	83.90	84.17	2 year bond	0.42	-0.04
Copper	9,699.00	52.5	AUD/GBP	0.5443	0.5487	0.5434	0.5482	10 year bond	1.53	-0.07
Oil (WTI)	79.23	-1.6	AUD/NZD	1.0399	1.0424	1.0394	1.0417	**Other (10 year yields)**		
Coal (thermal)	154.25	-3.3	AUD/EUR	0.6417	0.6437	0.6400	0.6403	Germany	-0.22	-0.06
Coal (coking)	372.33	0.7	AUD/CNH	4.7640	4.7753	4.7252	4.7329	Japan	0.07	-0.01
Iron Ore	91.20	-2.7	USD Index	93.9	94.5	93.8	94.3	UK	0.94	-0.13

Data as at 7:30am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The Bank of England surprised markets by not hiking rates and standing pat. The decision led to falls in bond yields in the major economies, as traders reduced their bets on tightening from major central banks.

Share Markets: The US S&P 500 index and Nasdaq index hit another new record high. The Nasdaq rose 129 points (or +0.8%), extending its rally for a ninth straight day, the longest winning streak since December. The S&P 500 index added 19 points (or +0.4%). However, the Dow Jones bucked the trend to close 33 points weaker (or -0.1%).

Interest Rates: US Treasury prices jumped (i.e. yields fell) after the Bank of England (BoE) surprised markets by not raising rates and standing pat. The BoE Governor's remarks also suggested market expectations for rate hikes next year were excessive. It follows the Fed earlier this week, which has contributed to the theme that major central banks are pushing back on market expectations for aggressive policy action.

The US 2-year Treasury yield fell 4 basis points and the US 10-year yield declined 7 basis points. Markets are now fully pricing the first Fed funds rate hike to be in October 2022, pushed out from September 2022 just yesterday.

The Australian 3-year government bond yield (futures) fell from 1.15% to 1.03%, while the 10-year yield fell from 1.88% to 1.76%. Interest-rate markets are fully priced for the first Reserve Bank (RBA) rate hike to be delivered in July 2022.

Foreign Exchange: The GBP/USD sharply in the wake of the BoE's decision to stand pat. It fell from a high ahead of the decision of around 1.3670 to an overnight low of 1.3471. It represents a fall of around 2 US cents in a short space of time for the GBP.

Meanwhile, the AUD/USD continued its sell off that began on Tuesday after the RBA meeting. The AUD/USD hit a 2-week low overnight of 0.7383, from an overnight high of near 0.7450.

Commodities: OPEC+ went its own way, sticking to a slow pace of oil supply increases. The group approved an expected 400,000 barrel-a-day output hike for December. Oil erased gains on the decision.

COVID-19: NSW recorded 308 new cases and four deaths yesterday. Victoria recorded 1,247 new cases and nine deaths. Elsewhere, the ACT recorded 13 new cases and Queensland recorded three new cases.

Australia: Retail sales fell 4.4% for the September quarter, driven by lockdowns during the quarter in NSW and Victoria. Unsurprisingly NSW (-11.6%), Victoria (-4.53%) and the ACT (-13.92%) suffered the largest falls for the quarter. All other states recorded sales growth in the period. Encouragingly, retail sales remain 6.9% above pre-pandemic levels, and are expected to recover as NSW and Victoria emerge from lockdown and unleash pent-up demand.

The trade surplus fell $2.5 billion in September to $12.2 billion. Both imports and exports contracted during September, with the latter falling 6.4% on the back of plummeting iron ore prices. Imports declined by 1.8% in September, led by a 37.6% decline in consumer transport equipment, as global supply chain disruption wreaks havoc on the auto industry.

Eurozone: German factory orders, an important indicator for Europe's biggest economy, made a feeble recovery in September. Orders were up 1.3% after a steep 8.8% decline in August. September's small gain was boosted by bulk orders in the manufacturing sector, without which there would have been only a 0.2% increase.

Euro zone producer prices jumped 2.7% in September, driven by skyrocketing energy costs. The annual gain in producer prices was 16.0% and the highest on record for the bloc. The jump also exceeded consensus expectations for a rise of 2.2%.

United Kingdom: The BoE has backed away from an immediate rise in interest rates, leaving the central bank's benchmark at the historic low of 0.1%. The BoE's Monetary Policy Committee (MPC) said it was likely that rate rises would be needed "over coming months". But the level of urgency on tackling inflation was dialled down compared with BoE Governor Baliey's comments last month that the MPC "will have to act" to restrain rising prices.

BoE officials cut next year's growth forecast to 5% from 6% and expects price growth to hit 5% in April 2022.

Bailey also suggested the BoE would not raise rates to 1% by the end of 2022, as expected by markets, because the central bank's forecasts showed inflation would fall below its 2% target in the medium term if they tightened monetary policy that much.

The MPC decision to keep interest rates on hold confounded financial markets, which were convinced the BoE was poised to tighten monetary policy, to 0.25%, for the first time since 2018.

The MPC's decisions were not unanimous. Two of the nine MPC members voted for an immediate rate rise to 0.25% and three wanted the BoE to end its quantitative easing programme of asset purchases now. Bailey said the rate decision for him had been "a very close call". But he sided with the majority on the MPC who took the view that subdued economic growth and expected falls in real household incomes would help pull inflation sharply lower in the second half of next year.

United States: In another sign of improving conditions, initial jobless claims data showed a downward trajectory for a fifth week. Initial jobless claims declined by 269,000 in the week ending October 30, down 14,000 from the previous week. It was the lowest level since 14 March 2020. It follows stronger-than-expected private payrolls data published yesterday by the ADP.

The trade deficit widened in September to $80.9 billion, a record, driven by climbing demand for imported goods, including capital goods (such as computers and electric equipment) and industrial supplies that have been rising in cost as global supply-chains remain disrupted. It was the sharpest increase in the trade gap since July 2020. In September, exports plunged 3.0% while imports rose 0.6%.

Today's key data and events:

AU RBA Statement on Monetary Policy (11:30am)
EZ Ger. Indust. Production Sep exp 1.0% prev -4.0% (6pm)
EZ Retail Sales Sep exp 0.2% prev 0.3% (9pm)
US Non Farm Payrolls Oct exp 450k prev 194k (11:30pm)
US Unemploy. Rate Oct exp 4.7% prev 4.8% (11:30pm)
US Avg Hourly Earn'gs Oct exp 0.4% prev 0.6% (11:30pm)
US Cons. Credit Sep exp $16.0bn prev $14.4bn (6am)
CH Current Acct. Q3 Prel. prev US$53.3bn (Time TBC)
CH Trade Bal. Oct exp US$66.1bn prev US$66.8bn (7 Nov)
Exports Oct y/y exp 22.4% prev 28.1%
Imports Oct y/y exp 26.0% prev 17.6%

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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