

Wednesday, 6 October 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,248	-0.4%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,315	0.9%	10 yr bond	98.44				90 day BBSW	0.02	0.00
Japan Nikkei	27,822	-2.2%	3 yr bond	99.48				2 year bond	0.08	0.03
China Shanghai	3,740	0.9%	3 mth bill rate	99.96				3 year bond	0.35	0.01
German DAX	15,194	1.1%	SPI 200	7,253.0			36	3 year swap	0.55	0.00
UK FTSE100	7,077	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.52	0.03
<b>Commodities (close &amp; change)*</b>			TWI		60.7	-	-	61.1	<b>United States</b>	
CRB Index	235.8	2.7	AUD/USD	0.7281	0.7301	0.7249	0.7289	3-month T Bill	0.03	0.00
Gold	1,759.74	-1.2	AUD/JPY	80.81	81.35	80.55	81.25	2 year bond	0.29	0.01
Copper	9,254.00	122.5	AUD/GBP	0.5353	0.5360	0.5331	0.5351	10 year bond	1.53	0.05
Oil (WTI)	79.18	1.6	AUD/NZD	1.0455	1.0478	1.0434	1.0478	<b>Other (10 year yields)</b>		
Coal (thermal)	249.30	19.0	AUD/EUR	0.6268	0.6293	0.6252	0.6286	Germany	-0.19	0.03
Coal (coking)	382.00	5.7	AUD/CNH	4.7017	4.7050	4.6803	4.7006	Japan	0.06	0.01
Iron Ore	117.65	0.7	USD Index	93.8	94.1	93.8	94.0	UK	1.08	0.07

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

**Main Themes:** US equity markets recovered some of their recent falls as risk sentiment improved. Bond yields rose and the US dollar was mixed against major currencies.

**Share Markets:** US stock markets recovered some of their losses from earlier in the week. The S&P 500 moved back above its 100-day moving average during the trading day and closed 1.1% higher. The NASDAQ rose 1.3% as tech stocks recovered.

The ASX 200 was down 0.4%. Futures are pointing to a recovery on the open today.

**Interest Rates:** The 10-year US treasury yield spiked by 5 basis points to 1.53%. The 2-year yield rose by 1 basis point to 0.29%.

The Australian 10-year government bond yield (futures) rose 2 basis points to 1.57%. The 3-year government bond yield (futures) increased 1 basis point to 0.53%.

**Foreign Exchange:** The US dollar was mixed against a basket of major currencies. The USD Index rose from a low of 93.8 to a high of 94.1, before settling at 94.0.

The AUD/USD pair ranged between a low of 0.7249 and a high of 0.7301, before settling at 0.7289, not far from where it opened the session.

**Commodities:** Oil extended its recent gains. WTI crude oil increased to be just shy of \$80. Iron ore, coal and copper were also higher, while gold fell.

**COVID-19:** NSW recorded 608 new cases yesterday and seven deaths. Victoria recorded 1,763 new cases and four deaths. Elsewhere, the ACT recorded 33 new cases and Queensland recorded two new cases.

**Australia:** The Reserve Bank (RBA) Board meeting yesterday was largely uneventful, although it did provide some interesting nuggets on housing and the jobs market.

Policy settings were left unchanged, as widely expected. In September, the RBA began tapering bond purchases. The RBA continued to maintain its “central scenario” is that the cash rate will not increase until 2024.

The statement added weight to the growing expectation that regulators will intervene in the housing market, possibly soon. A sentence was inserted flagging the “medium-term risks to macroeconomic stability of rapid credit growth at a time of historically low interest rates”.

Encouragingly for the jobs market, the RBA flagged its liaison program and job vacancies suggest that “many firms are seeking to hire workers ahead of the reopening in October and November”.

Looking ahead, we expect the Reserve Bank will scale back its bond purchases further in the first half of 2022. We anticipate that the bond buying program will conclude by the end of 2022.

We still expect the RBA to lift the cash rate in 2023.

However, there are larger-than-usual risks around the medium term outlook; a slower recovery than we have forecast or further setbacks on the health front could push out the timing of the first rate hike.

Separately, job advertisements fell 2.8% in September, marking the third consecutive decline in the series. Despite the fall, job ads are still well above pre-pandemic levels, reflecting that underlying labour demand remains robust despite lockdowns.

In other data, Australia's trade surplus widened to a fresh record high of \$15.1 billion in August, up from a revised \$12.7 billion in July. Exports rose 4.1%, reflecting high commodity prices and rural goods, and imports fell 1.5%.

Following NSW Premier Berejiklian's resignation last Friday, Dominic Perrottet was confirmed as the new Premier.

**Eurozone:** The September services PMI final estimate came in at 56.4, broadly unchanged from the preliminary reading of 56.3. A reading of above 50 indicates expansion.

The producer price index (PPI) rose by 13.4% over the year to August, broadly in line with consensus expectations of a 13.5% increase. This was up from the July reading of 12.1%.

**United Kingdom:** The September services PMI final estimate increased to 55.4, up from a preliminary reading of 54.6. The index has remained above 50 since February of this year.

**United States:** The trade deficit reached a record high in August. The deficit rose to \$73.3 billion, up from \$70.3 billion in July and above consensus expectations of \$70.8 billion. A rise in imports drove the deterioration as consumer demand for goods recovered. Exports also increased, but not by enough to offset the rise in imports.

The ISM services PMI rose to 61.9 in September. This was above consensus expectations of 59.9 and up on the August outcome of 61.7. The survey has now been above 60 for seven consecutive months, indicating strength in the services sector.

Elsewhere, the final estimate of the September Markit services PMI, at 54.9, was slightly stronger than the preliminary estimate of 54.4.

The Chicago Fed President Evans agreed that tapering of bond purchases could start this year and finish by mid-2022. On inflation, he remains comfortable with the view that the spike in inflation reflects supply issues and is temporary. He expects inflation will "come down as the supply bottlenecks

are addressed". He acknowledged the pressure that higher inflation is placing on households and the economic recovery.

#### Today's key data and events:

NZ RBNZ Policy Setting (12pm)

OCR exp 0.50% prev 0.25%

EZ Ger. Factory Orders Aug exp -2.2% prev 3.4% (5pm)

EZ Retail Sales Aug exp 0.8% prev -2.3% (8pm)

US ADP Employ. Change Sep exp 430k prev 374k (11:15pm)

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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