Morning report

Monday, 8 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,457	0.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	36,328	0.6%	10 yr bond	98.26		0.09		90 day BBSW	0.05	0.00
Japan Nikkei	29,612	-0.6%	3 yr bond	98.97		0.08		2 year bond	0.60	-0.04
China Shanghai	3,659	-1.0%	3 mth bill rate	99.92		-0.01		3 year bond	0.85	-0.08
German DAX	16,054	0.2%	SPI 200	7,459.0		22		3 year swap	1.13	0.02
UK FTSE100	7,304	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.73	-0.09
Commodities (close & change)*			TWI	62.4	-	-	62.1	**United States**		
CRB Index	235.0	26.3	AUD/USD	0.7398	0.7412	0.7360	0.7394	3-month T Bill	0.04	0.00
Gold	1,818.36	26.3	AUD/JPY	84.17	84.35	83.80	83.82	2 year bond	0.40	-0.02
Copper	9,752.00	53.0	AUD/GBP	0.5482	0.5493	0.5470	0.5485	10 year bond	1.45	-0.07
Oil (WTI)	81.27	2.5	AUD/NZD	1.0317	1.0434	1.0388	1.0400	**Other (10 year yields)**		
Coal (thermal)	147.75	2.8	AUD/EUR	0.6403	0.6419	0.6383	0.6399	Germany	-0.28	-0.06
Coal (coking)	371.83	-0.5	AUD/CNH	4.7329	4.7407	4.7167	4.7307	Japan	0.06	-0.01
Iron Ore	93.55	2.1	USD Index	94.3	94.6	94.2	94.3	UK	0.85	-0.10

Data as at 8:30am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Stronger-than-expected US jobs data supported market sentiment on Friday. US equity markets advanced to new all-time highs. Bond yields declined as investors shift their views on potential central bank policy actions in response to inflation concerns. This follows dovish signals from several central banks during the week.

Share Markets: US equity markets rose to new all-time highs following stronger-than-expected jobs data. The S&P 500 rose for a seventh straight day and recorded its fifth consecutive weekly gain. This is the longest streak of weekly gains since August 2020. The S&P 500 rose 0.4%, while the Nasdaq was 0.2% higher.

The ASX 200 rose 0.4% and futures are pointing to further gains on the open this morning.

Interest Rates: The US 10-year Treasury yield fell 7 basis points to 1.45%. The 2-year yield fell by 2 basis points to 0.40%. The market is pricing the first rate increase by the FOMC to be in October 2022.

The Australian 10-year government bond yield (futures) fell from 1.84% to 1.73%. The 3-year government bond yield (futures) fell from 1.12% to 1.03%.

Foreign Exchange: The US dollar ended the session broadly unchanged against a basket of major currencies after falling in response to the stronger-than-expected jobs data. The USD Index traded between a low of 94.2 and a high of 94.6, before settling at 94.3.

The AUD/USD pair also closed broadly unchanged on the day. The pair increased from a low of 0.7360 to a high of 0.7412. It is currently trading around 0.7394 at the time of writing.

Commodities: Oil rose to be above $81. Gold, iron ore and copper were also higher.

COVID-19: NSW recorded 244 new cases and one death yesterday. Victoria recorded 1,173 new cases and nine deaths. Elsewhere, the ACT recorded 13 new cases and Queensland recorded one new case.

Pfizer reported that its experimental COVID-19 antiviral pill reduced rates of hospitalisation and death by nearly 90% in high-risk adults.

Australia: There were major shifts from the Reserve Bank (RBA) last week which lay the groundwork for earlier rate hikes. The Statement on Monetary Policy (SoMP) was released on Friday, including fresh forecasts projecting a strong rebound from the recent setbacks.

GDP is expected to contract by around 2½ per cent in the September quarter. But a rapid recovery is already underway. GDP growth is expected to land at 3 per cent over 2021 and 5½ per cent over 2022, before normalising to 2½ per cent over 2023.

Jobs are set to recover quickly over the coming months. The RBA has the unemployment rate hitting 4¾ per cent for the end of this year and heading to 4 per cent by the end of 2023. The unemployment rate has not been consistently sub-4 per cent since the 1970s.

However, the RBA continued to emphasise it expects wages and inflation will only pick up gradually. The RBA expects underlying inflation will reach 2¼ per cent by the end of this year and hold at that level until the end of 2023, when it is forecast to tick up to 2½ per cent.

The RBA's moves to drop the yield curve target and adjust its forward guidance are sensible given the recovery has far exceeded expectations. However, the central bank is pushing back against hikes in 2022, which are currently expected by the market.

Some may argue that the RBA's inflation forecasts are too subdued in the context of global supply chain disruptions and elevated energy prices. Indeed, we expect inflation will pick up faster but remain comfortable with our long-held view that the tightening cycle will commence in early 2023, although would not rule out the possibility of a move sooner.

China: The trade balance increased to $84.5 billion in October, up from $66.8 billion in the previous month. Exports were up 27.1% on the previous year (versus 28.1% over the year to the September), while imports rose 20.6% over the same period. Both exports and imports are much higher than a year ago when the global economy was in the throes of the pandemic but there are growing concerns that headwinds are slowing China's growth. The economy has been hit by tough COVID-19 restrictions as the country battles fresh virus outbreaks while power shortages have hit factory production.

China's current account balance rose to $80.1 billion in the September quarter, from $53.3 billion in the previous quarter.

Eurozone: German industrial production was softer-than-expected, declining 1.0% over the year to September, alongside supply shortages.

Eurozone retail sales declined 0.3% in September, missing expectations, although remained 2.5% higher over the year. The dip comes as another wave of the coronavirus hits Europe.

United States: Non-farm payrolls rose 531k in October, higher than the 450k expected and the 312k increase in September. Hiring was broad-based, led by leisure and hospitality. The unemployment rate declined to 4.6% from 4.8% however participation remained at 61.6%, underscoring workers' lingering hesitancy about returning to the labour market. Average hourly earnings rose 0.4% in the month and 4.9% over the year while average weekly hours edged slightly lower to 34.7, from 34.8. These data paint a better-than-expected picture for the jobs market, as easing COVID-19 cases and higher wages are helping employers fill vacancies.

US consumer borrowing jumped $29.9 billion in September, the largest increase in three months, reflecting increases in credit card balances and non-revolving lending.

Today's key data and events:

EZ Sentix Investor Conf. Nov prev 16.9 (8:30pm)

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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