

Wednesday, 10 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,434	-0.2%			Last	Overnight Chg		Australia		
US Dow Jones	36,320	-0.3%	10 yr bond	98.23		0.04	90 day BBSW	0.05	0.00	
Japan Nikkei	29,285	-0.8%	3 yr bond	98.95		0.01	2 year bond	0.61	0.01	
China Shanghai	3,676	0.2%	3 mth bill rate	99.94		0.00	3 year bond	0.88	0.02	
German DAX	16,040	0.0%	SPI 200	7,440.0		20	3 year swap	1.15	-0.04	
UK FTSE100	7,274	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.78	0.03
Commodities (close & change)*			TWI	62.0	-	-	62.0	United States		
CRB Index	236.6	8.3	AUD/USD	0.7424	0.7432	0.7361	0.7380	3-month T Bill	0.04	-0.01
Gold	1,832.48	8.3	AUD/JPY	84.04	84.10	83.12	83.30	2 year bond	0.41	-0.03
Copper	9,764.50	-133.0	AUD/GBP	0.5474	0.5476	0.5436	0.5442	10 year bond	1.44	-0.05
Oil (WTI)	84.35	2.4	AUD/NZD	1.0356	1.0381	1.0331	1.0349	Other (10 year yields)		
Coal (thermal)	159.20	-4.8	AUD/EUR	0.6405	0.6411	0.6357	0.6364	Germany	-0.30	-0.06
Coal (coking)	375.17	0.7	AUD/CNH	4.7419	4.7484	4.7071	4.7154	Japan	0.06	0.00
Iron Ore	86.35	-4.5	USD Index	94.0	94.2	93.9	94.0	UK	0.82	-0.03

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Investor appetite for risk waned overnight, as news spilled out that US President Biden was still mulling over whether to reappoint Jerome Powell as the Fed Chair. US share markets ended an 8-day winning streak and US bond yields fell, as investors rotated towards safer haven asset classes.

Share Markets: US share markets fell overnight, halting an eight-day rally. Risk aversion rose among investors after news emerged that Lael Brainard was interviewed by US President Biden. US Fed Chair Jerome Powell's term ends in early 2022 and Biden is still considering whether to tap him for a second term. The S&P 500 index fell 19 points (or -0.4%), the Dow dropped 112 points (or -0.3%) and the Nasdaq declined 96 points (or -0.6%).

Interest Rates: The weaker appetites for risk among investors led US bond yields to fall across the bond yield curve. The US 2-year yield fell 1 basis point and the 10-year bond yield fell 5 basis points. The US 30-year yield fell 6 basis points to a 7-week low of 1.82%. Bond yields were depressed by speculation a more dovish Federal Reserve Chair may be appointed. Interest-rate markets are fully pricing the first Fed funds rate hike to be in October 2022, compared to yesterday's September 2022.

Australian 3-year government bond yields (futures) ranged between 1.04% and 1.08%, while the 10-

year yield fell from 1.83% to 1.75%. Markets are fully priced for the first rate hike from the Reserve Bank to occur in July 2022.

Foreign Exchange: The US dollar had a mixed performance against the G-10 basket overnight. The US dollar index is slightly weaker. Safe-haven currencies like the Japanese yen performed better overnight and risk-sensitive currencies like the Australian dollar were under pressure. The AUD/USD fell from an overnight high of 0.7432 to a low of 0.7361, but has recovered some ground from this low to be currently trading around 0.7380.

Commodities: X

Australia: Business confidence leapt higher in October as lockdowns ended in NSW and Victoria. Confidence jumped 11 points to +21, not far from the record high of +24 in April this year. Conditions rose 6 points to +11 - a healthy reading.

In trend terms, confidence is highest in NSW, followed by SA and Queensland. Meanwhile, business conditions are strongest in WA, Tasmania and Queensland.

The survey continues to point to rising price pressures. The measure for input costs reached its highest level in a decade.

By industry, confidence is highest in trend terms in transport & utilities, construction, and retail - all sectors which have benefitted from the relaxation

in restrictions. Conditions are strongest in the mining and wholesale sectors.

The surge in confidence is another signal the economy is rebounding from the Delta setback. The buoyant mood amongst businesses points to a resumption in the uplift in business investment, which was underway ahead of the Delta outbreak.

China: Evergrande faces its biggest test yet as the grace period on \$148.1 million of missed coupon payments on three dollar bonds ends today. While the developer has made 11th-hour payments previously, a miss could tip it over into cascading defaults.

Eurozone: The ZEW indicator of economic sentiment for Germany increased in this month's survey for the first time since May. The metric climbed 9.4 points to a new reading of 31.7 points. However, the assessment of the economic situation in Germany has diminished again, falling by 9.1 points to a level of 12.5 points. The renewed decline in the assessment of the economic situation reflects supply bottlenecks for raw materials and intermediate products, as well as the high inflation rate.

New Zealand: Retail card spending rose 10.1% in October, up from 1.0% in September, reflecting the easing of restrictions in some regions. Despite the rise, retail card spending remains down 6.9% compared to a year earlier. Spending is expected to continue to recover as restrictions are relaxed further.

United States: Prices continue to climb in the United States with October marking another record for wholesale inflation in the world's largest economy. The producer price index (PPI), which measures the prices businesses fetch for the goods and services they sell, rose 0.6% in October. In annual terms, the PPI increased 8.6%, which matches the rate recorded in September, which was the fastest since on record (since the data was collected in 2010). Excluding food and energy, the PPI's annual rate of growth remained at a record high of 6.8%.

The Federal Reserve's Mary Daly said inflation is "eye-popping" but should subside next year as supply chain disruptions and price increases moderate. Daly also added that it could be a challenging winter, especially for low- and moderate-income households because of rising fuel costs.

Meanwhile, the Federal Reserve's James Bullard repeated that the Fed may have to move faster if

inflation pressures persist. He forecasts an unemployment rate near 3%, noting the labour market is very tight and will remain so, with GDP growth over 4% next year.

Today's key data and events:

AU WBC-MI Cons. Confidence Nov prev 104.6 (10:30am)

CH CPI Oct y/y exp 1.4% prev 0.7% (12:30pm)

CH PPI Oct y/y exp 12.3% prev 10.7% (12:30pm)

EZ CPI y/y Oct Final prev 2.2% (6pm)

US CPI Oct exp 0.6% prev 0.4% (12:30am)

US Initial Jobless Claims w/e 6 Nov exp 260k prev 269k (12:30am)

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.

Besa Deda, Chief Economist

Ph: (02) 8254 3251

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist

Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist

Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Associate Economist

Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789

The Detail

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