

Monday, 13 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,354	-0.4%			Last	Overnight Chg		Australia		
US Dow Jones	35,971	0.6%	10 yr bond	98.35			0.00	90 day BBSW	0.06	0.00
Japan Nikkei	28,438	-1.0%	3 yr bond	98.91			0.01	2 year bond	0.65	-0.02
China Shanghai	3,843	-0.2%	3 mth bill rate	99.84			-0.01	3 year bond	0.92	-0.03
German DAX	15,623	-0.1%	SPI 200	7,366.0			13	3 year swap	1.28	-0.01
UK FTSE100	7,292	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.64	-0.04
Commodities (close & change)*			TWI	60.4	-	-	60.3	United States		
CRB Index	225.9	0.5	AUD/USD	0.7150	0.7182	0.7132	0.7161	3-month T Bill	0.05	-0.01
Gold	1,782.84	7.5	AUD/JPY	81.13	81.56	80.83	81.10	2 year bond	0.65	-0.03
Copper	9,507.50	-35.0	AUD/GBP	0.5408	0.5429	0.5396	0.5410	10 year bond	1.48	-0.02
Oil (WTI futures)	71.67	0.7	AUD/NZD	1.0519	1.0564	1.0504	1.0533	Other (10 year yields)		
Coal (thermal)	163.25	5.1	AUD/EUR	0.6331	0.6362	0.6318	0.6330	Germany	-0.35	0.01
Coal (coking)	346.67	1.7	AUD/CNH	4.5601	4.5784	4.5498	4.5630	Japan	0.06	0.01
Iron Ore	110.65	2.3	USD Index	96.22	96.43	95.98	96.10	UK	0.74	-0.01

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: US inflation jumped to its highest annual pace in almost 40 years. However, the outcome was in line with consensus expectations. As a result, risk sentiment improved, driving gains in US equities. Bond yields fell and the US dollar was slightly weaker.

Share Markets: US equity markets rose on Friday as inflation data was in line with consensus expectations. This led to changing expectations around the pace of tightening of monetary policy by the Federal Reserve.

The S&P 500 rose by 1.0% to a new record high. The Nasdaq was 0.7% higher and the Dow Jones increased by 0.6%.

The ASX 200 fell by 0.4%. Futures are suggesting a positive open today.

Interest Rates: Interest rates fell as inflation data was in line with expectations and investors adjusted their expectations on the pace of Fed tightening. The US 10-year treasury yield fell 2 basis points to 1.48%. The 2-year treasury yield fell 3 basis points to 0.65%. The market is fully pricing in the first Fed funds rate hike by July 2022. These expectations have been pushed back by one month.

The Australian 10-year government bond yield (futures) fell from 1.68% to 1.63%. The 3-year government bond yield (futures) fell from 1.12% to 1.07%. The market is expecting the first Reserve Bank cash rate increase to come in August 2022,

based on interbank cash rate futures.

Foreign Exchange: The US dollar was slightly weaker against a basket of major currencies. The USD Index fell from a high of 96.43 to a low of 95.98. The index then recovered to 96.10.

The AUD/USD pair traded higher. The pair rose from a low of 0.7132 to a high of 0.7182, before retracing to trade at 0.7161 at the time of writing.

Commodities: Gold, coal and iron ore all rose. Copper was lower, while oil was broadly unchanged.

COVID-19: Australian's can now receive Pfizer or Moderna booster shots five months following their last vaccination. This follows updated advice from the Australian Technical Advisory Group on Immunisation (ATAGI) and is down from the previous advice of six months. The change comes after health authorities warn that immunity to the Omicron variant begins to wane six months after vaccination.

A UK study suggests that booster vaccine shots provide 70-75% protection against the Omicron strain. However, two doses of vaccines were found to be less effective against Omicron than against Delta.

Australia: There were no major economic data releases on Friday.

New Zealand: The BusinessNZ manufacturing

purchasing manager's index (PMI) dropped to 50.6 in November, from a revised 54.2 in October. Four of the five sub-indexes fell in November and all five are below long-term averages. Despite this, the index remains just within expansionary territory.

Retail card spending rose by 9.6% in November as restrictions eased in the upper North Island. This follows a revised 10.0% increase in October. The increase in spending was driven by furniture, electrical and hardware sales, in line with Black Friday promotions.

United Kingdom: Industrial production fell by 0.6% in October, led by declines in petroleum, energy, and mining. This was below consensus expectations of a 0.1% gain and follows a 0.4% fall in September.

United States: Inflation, as measured by the consumer price index (CPI), jumped to its highest annual rate in almost 40 years (since 1982). The CPI rose by 0.8% in November, to be 6.8% higher over the year. The annual increase was in line with consensus expectations while the monthly rise was slightly stronger than the 0.7% expected by consensus. The jump follows a rise of 6.2% over the year to October.

Core inflation, excluding food and energy, rose by 0.5% in November, to be 4.9% higher over the year and to record its highest rate in around 30 years. This was up from 4.6% in the prior month. The monthly and annual outcomes were both in line with expectations.

Price increases were broad based across many categories, including housing, food, fuel, and vehicles. Other categories, including household furnishings, clothing and airfares also contributed to the rise.

President Biden expects that price increases have peaked and will decelerate more rapidly than expected.

Consumer sentiment rebounded in December from a decade low in November, reflecting an improved economic outlook. The University of Michigan consumer sentiment index rose to 70.4 in December, up from 67.4 in November. This was above consensus expectations of 68.0. However, inflation remains a key concern for households. Inflation expectations were unchanged from their November reading. Expectations for one-year ahead inflation were 4.9%, while expectations for inflation over the next five to 10 years were at 3.0%. Sentiment differed across households with different income levels. Sentiment rose the most for households in the bottom third of the income

distribution. Sentiment fell for households in the middle and top third of the distribution.

Today's key data and events:

JP Tankan Large Mfg Index Q4 exp 19 prev 18 (10:50am)

JP Machinery Orders Oct exp 1.8% prev 0.0% (10:50am)

NZ Net Migration Oct prev 653 (8:45am)

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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