

Wednesday, 15 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,378	0.0%			Last	Overnight Chg		Australia		
US Dow Jones	35,546	-0.3%	10 yr bond	98.41				90 day BBSW	0.06	0.00
Japan Nikkei	28,433	-0.7%	3 yr bond	98.95				2 year bond	0.61	-0.02
China Shanghai	3,838	-0.5%	3 mth bill rate	99.83				3 year bond	0.85	-0.04
German DAX	15,454	-1.1%	SPI 200	7,342.0				3 year swap	1.26	0.05
UK FTSE100	7,219	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.54	-0.06
Commodities (close & change)*			TWI	60.5	-	-	60.0	United States		
CRB Index	224.3	-1.0	AUD/USD	0.7130	0.7136	0.7090	0.7103	3-month T Bill	0.04	-0.01
Gold	1,771.28	-15.4	AUD/JPY	80.99	81.15	80.48	80.79	2 year bond	0.66	0.02
Copper	9,449.00	-62.5	AUD/GBP	0.5397	0.5402	0.5370	0.5371	10 year bond	1.44	0.02
Oil (WTI futures)	70.45	-0.8	AUD/NZD	1.0561	1.0566	1.0524	1.0533	Other (10 year yields)		
Coal (thermal)	149.80	2.1	AUD/EUR	0.6318	0.6328	0.6286	0.6310	Germany	-0.37	0.01
Coal (coking)	349.67	3.7	AUD/CNH	4.5457	4.5489	4.5176	4.5271	Japan	0.05	0.00
Iron Ore	114.00	1.2	USD Index	96.37	96.58	96.10	96.57	UK	0.72	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: Risk sentiment declined following stronger-than-expected producer price inflation data as the Federal Open Market Committee began its two-day meeting. Equity markets were lower. Bond yields rose and the US dollar strengthened.

Share Markets: US equity markets were weaker following the publication of record high producer price inflation data and concerns around the implications that may have for the Federal Reserve's quantitative easing program.

The S&P 500 fell 0.7%, the Nasdaq was 1.1% weaker and the Dow Jones was also down 0.3%.

The ASX 200 was flat yesterday. Futures are pointing to a soft open.

Interest Rates: Interest rates increased following the strong-than-expected producer price inflation data. The US 2-year and 10-year treasury yield both rose by 2 basis points, to 0.66% and 1.44%, respectively.

The Australian 10-year government bond yield (futures) rose from 1.55% to 1.60%. The 3-year government bond yield (futures) increased from 1.03% to 1.05%.

Foreign Exchange: The US dollar strengthened against every G-10 peer except for the pound. The USD Index rose from a low of 96.10 to a high of 96.58 and was trading near that level at the time of writing.

The AUD/USD pair traded in a relatively narrow range, increasing from a low of 0.7090 to a high of 0.7136, before retracing to 0.7103.

Commodities: The International Energy Agency's (IEA) Oil Market Report suggested that a global oil surplus has returned and will only get bigger in the future. Inventories could increase at a rate of 1.7 million barrels per day for the first few months of 2022. This reflects higher expected output from OPEC+, the US, Brazil, and Canada. Forecasts for demand were lowered. Oil prices fell on the day.

Gold and copper were also down, while iron ore and coal prices rose.

Australia: Business confidence pulled back in November, following a surge over the previous two months alongside the end of lockdowns in NSW and Victoria. Confidence fell by 8 points to +12. The emergence of the Omicron variant may have weighed on confidence in November. But despite the pullback, confidence remains well above the long-run average.

Business conditions rose 2 points over the month to +12, the highest level since August. Conditions are also above the long-run average.

The increase was driven by Queensland and SA. Conditions across Victoria rose slightly and were broadly unchanged in NSW in November, despite both states coming out of lockdown recently. Trailing restrictions may have impacted the

rebound in conditions in these states.

Of the three sub-components of the conditions index – trading, profitability, and employment – employment drove the gains. The employment index rose 5 points to +11, its highest level since July and more than double its long-run average. The rebound suggests businesses increased hiring in November after lockdowns lifted and as economic activity improved.

Yesterday's data are another signal that business investment is set for a solid recovery. Above-average levels of confidence, robust capacity utilisation, increased consumer spending, and a recovering labour market will support the rebound in business spending.

Eurozone: Industrial production rebounded in October following two months of declines. The improvement was driven by gains in Germany's vehicle sector, as it continued to recover. Industrial production rose 1.1% in October, following a 0.2% fall in the prior month. This was slightly weaker than consensus expectations of a 1.2% gain. Supply-chain disruptions continue to weigh on industrial production, including shortages of semiconductors for use in the vehicle sector.

Japan: The final estimate of industrial production showed an expansion of 1.8% in October. This follows a preliminary estimate of 1.1%. In annual terms, output was revised to -4.1% over the year to October, up from the preliminary estimate of -4.7%.

United Kingdom: Unemployment was in line with consensus expectations, falling to 4.2% in the three months to October, despite the end of the furlough scheme. This is down from 4.3% in the three months to September. The unemployment rate peaked at 5.2% during the pandemic and has now fallen to be 0.2 percentage points above pre-pandemic levels.

Wages growth exceeded expectations. Annual weekly earnings growth, excluding bonuses, was 4.3% in the three months to October. This was above consensus expectations of 4.0% growth but down from a revised 5.0% in the three months to September.

United States: Supply-chain disruptions, and shortages of raw materials and labour continue to impact producers. The producer price index (PPI), a measure of prices received by businesses for their final products, rose to a new record high of 9.6% over the year to November. This was above consensus expectations of a 9.2% gain and up from the revised gain of 8.8% over the year to October.

On a monthly basis, producer prices rose by 0.8% in November. The core measure, excluding volatile items such as food and energy, rose by 7.7% over the year. This was also above consensus expectations of a 7.2% gain and up on the revised increase of 7.0% in October. The increase was driven by rises in the prices of goods, which increased 1.2%. Services prices were also higher, increasing by 0.7% in the month.

Sentiment among small business owners increased slightly in November. The NFIB Small Business Optimism survey increased to 98.4 in November, up from 98.2 in October. The result was in line with consensus expectations. While higher over the month, the report did cite concerns over interest rates increases and higher prices impacting performance in 2022.

Today's key data and events:

NZ Current Acc. Q3 exp -7.8bn prev -\$1.4bn (8:45am)
 AU WBC-MI Cons. Conf. Dec prev 105.3 (10:30am)
 CH Retail Sales Nov y/y exp 4.7% prev 4.9% (1pm)
 CH Indust. Production Nov y/y exp 3.7% prev 3.5% (1pm)
 UK CPI Nov exp 0.4% prev 1.1% (6pm)
 US NY Empire Mfg Dec prev 30.9 (12:30am)
 US Retail Sales Nov exp 0.9% prev 1.7% (12:30am)
 US Import Price Index Nov exp 0.6% prev 1.2% (12:30am)
 US Business Inventories Oct exp 1.1% prev 0.7% (2am)
 US NAHB Housing Mkt. Index Dec exp 84 prev 83 (2am)
 US FOMC Meeting Decision (6am)
 Federal Funds Rate exp 0.00% - 0.25% prev 0.00% - 0.25%

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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