

Friday, 19 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,379	0.1%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	35,871	-0.2%	10 yr bond	98.18			-0.01	90 day BBSW	0.04	0.00
Japan Nikkei	29,599	-0.3%	3 yr bond	98.86			0.00	2 year bond	0.68	-0.02
China Shanghai	3,690	-0.5%	3 mth bill rate	99.94			-0.01	3 year bond	0.96	-0.03
German DAX	16,222	-0.2%	SPI 200	7,375.0			8	3 year swap	1.32	0.00
UK FTSE100	7,256	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.80	-0.06
<b>Commodities (close &amp; change)*</b>			TWI	61.7	-	-	61.1	<b>United States</b>		
CRB Index	236.4	0.2	AUD/USD	0.7297	0.7293	0.7250	0.7275	3-month T Bill	0.05	0.00
Gold	1,860.79	-6.7	AUD/JPY	83.80	83.26	82.69	83.10	2 year bond	0.50	0.00
Copper	9,503.50	76.1	AUD/GBP	0.5437	0.5406	0.5376	0.5389	10 year bond	1.58	-0.01
Oil (WTI)	78.96	0.6	AUD/NZD	1.0443	1.0388	1.0329	1.0331	<b>Other (10 year yields)</b>		
Coal (thermal)	151.60	4.6	AUD/EUR	0.6450	0.6440	0.6390	0.6397	Germany	-0.28	-0.03
Coal (coking)	372.67	-2.8	AUD/CNH	4.6654	4.6553	4.6254	4.6428	Japan	0.08	0.00
Iron Ore	86.25	0.0	USD Index	95.9	95.8	95.5	95.5	UK	0.93	-0.04

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 share markets finished the session mixed and US bond yields little changed. Inflationary concerns remain. The US Philly Fed's index showed prices paid rose to their highest since June's 42-year high. Late in New York, the US dollar index came under selling pressure, helping the AUD steer clear of a key support level of 0.7230 for now.

**Share Markets:** US equity markets were mixed overnight. The S&P 500 and the NASDAQ reached new record highs, edging up 0.3% and 0.5%, respectively. The Dow Jones bucked the trend, closing down 0.2%. US markets were volatile, ahead of what's set to be the second biggest option expiration in recent history tomorrow. The total number of outstanding contracts on equity, index and ETF options stands at \$95.5 million.

The ASX 200 index rose nine points to 7,379, up 0.1% in yesterday's the session.

**Interest Rates:** US bond yields finished little changed. The US 2-year yield closed flat at 0.50% and the 10-year yield edged down 1 basis point to 1.58% after fluctuating between 1.57% and 1.61% during trade. A 10-year inflation-linked bond auction witnessed strong demand.

Interest-rate markets continue to have the first Fed funds rate hike fully priced for August 2022.

The Australian 3-year government bond yield (futures) traded around 1.13%, while the 10-year

yield rose from 1.80% to 1.84%.

Cash-rate futures have the first rate hike from the Reserve Bank (RBA) fully priced for August 2022. Earlier this week, futures were priced for a July 2022 move, but this has been wound back since the RBA Governor's speech on Tuesday.

**Foreign Exchange:** The AUD/USD fell from an overnight high of 0.7293 to a 6-week low of 0.7250 before recovering towards the 0.7280 handle. A mild sell off in the US dollar helped the AUD/USD recover. The support level for 0.7230 remains critical to the near-term outlook for the AUD. A sustained, clean break under this level would spell a more bearish outlook in the near term.

**Commodities:** West Texas Intermediate crude oil ended higher after a volatile session of trade overnight. Low prices saw investors return to the market, as all eyes were focused on the US decision to release strategic reserves. Copper also rose, while gold slipped. Iron ore closed flat.

**COVID-19:** Restrictions ease today in Victoria, including the removal of density limits in homes and businesses. The move comes as Victoria is expected to pass its 90% double-dose vaccination milestone over the weekend (for individuals aged 12+).

**Australia:** In a speech yesterday, the Reserve Bank's (RBA) Assistant Governor Luci Ellis highlighted opportunities for post-pandemic productivity gains

alongside increased remote working, online sales, and medical advances. However, Ellis underscored that the path forward for productivity remains uncertain.

Separately, the RBA's Tony Richards warned cryptocurrency investors over excessive hype around the assets. He cautioned that there are "plausible scenarios" where much of the price increases over recent years could be unwound. The RBA expects global central banks will establish control over digital finance by issuing a new form of digital money, called central bank digital currency.

**United States:** The Federal Reserve's John Williams seemed less comfortable about medium-term inflation pressures. Williams said longer-term price expectations have moved up "quite a bit" and cautioned against letting that trend continue. He cited rising rents and supply constraints as major factors. The International Monetary Fund (IMF) also warned that US price risks are to the upside, which may require an accelerated policy response.

Manufacturing activity slowed in the Kansas City Federal Reserve district in November. The Kansas City Fed's manufacturing activity gauge dropped 7 points to 24 in November. Consensus had expected a stronger outcome of 28.

The Conference Board leading economic index increased by 0.9% in October to 118.3, following a 0.1% increase in September and a 0.7% increase in August. The sharp rise suggests the current economic expansion will continue into 2022.

Initial jobless claims edged down to 268k in the week ending 13 November, following a revised 269k outcome in the week prior. However, claims remained well above consensus expectations of 260k. The four-month moving average moved down to 273k, the lowest since March 2020, as the labour market continued to tighten.

The index for current general activity in the Philadelphia Federal Reserve's manufacturing business outlook survey rose to 39 in November, surging past expectations. It was 23.8 in October. General activity, shipments, new orders, and price indicators were all up from October. Meanwhile, the employment index registered a decline, but remained elevated.

On the inflation front, the index for prices paid rose by ten points to 80, marking the highest reading since June's 42-year high.

The accompanying commentary referred to an economy that "continues to overheat".

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

JP CPI Oct y/y exp 0.2% prev 0.2% (10:30am)

UK GfK Cons. Sentiment Nov exp -18 prev -17 (11:01am)

NZ Credit Card Spending Oct prev -3.3% (1pm)

UK Retail Sales Oct exp 0.5% prev -0.2% (6pm)

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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