

Wednesday, 20 October 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,375	-0.1%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	35,457	0.6%	10 yr bond	98.23				90 day BBSW	0.04	0.00
Japan Nikkei	29,216	0.7%	3 yr bond	99.07				2 year bond	0.15	0.01
China Shanghai	3,766	0.7%	3 mth bill rate	99.93				3 year bond	0.77	-0.02
German DAX	15,516	0.3%	SPI 200	7,383.0				3 year swap	0.86	-0.09
UK FTSE100	7,218	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.73	-0.02
<b>Commodities (close &amp; change)*</b>			TWI	62.3	-	-	62.5	<b>United States</b>		
CRB Index	238.3	0.0	AUD/USD	0.7415	0.7486	0.7408	0.7475	3-month T Bill	0.04	-0.01
Gold	1,769.82	5.0	AUD/JPY	84.77	85.54	84.66	85.51	2 year bond	0.40	-0.03
Copper	10,239.50	-70.5	AUD/GBP	0.5401	0.5427	0.5395	0.5420	10 year bond	1.64	0.04
Oil (WTI)	82.83	0.4	AUD/NZD	1.0464	1.0469	1.0425	1.0450	<b>Other (10 year yields)</b>		
Coal (thermal)	199.10	-13.7	AUD/EUR	0.6386	0.6433	0.6380	0.6425	Germany	-0.11	0.04
Coal (coking)	393.00	-1.5	AUD/CNH	4.7670	4.7856	4.7587	4.7666	Japan	0.09	-0.01
Iron Ore	123.80	1.4	USD Index	94.0	94.0	93.5	93.8	UK	1.17	0.03

Data as at 7:30am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** Risk sentiment rose overnight in line with continued strength in company earnings reports. Longer-term US bond yields rose and the defensive US dollar fell.

**Share Markets:** US equity markets extended their gains as strong company earnings reports outweighed inflation concerns. The S&P 500 rose for a fifth consecutive day, to be 0.7% higher. The index is now within half a per cent of its all-time high. The Nasdaq also rose 0.7% on the day.

Cryptocurrency-related stocks rose as Bitcoin hit a new all-time high.

**Interest Rates:** The US 2-year treasury yield fell by 3 basis points to 0.40%. The 10-year treasury yield rose by 4 basis points to 1.64%, leading to a steepening of the yield curve.

The Australian 10-year government bond yield (futures) rose from 1.76% to 1.78%. The 3-year government bond yield (futures) pulled back slightly after large increases over recent days. It fell from 0.97% to 0.94%. The market's expectations for the first RBA cash rate increase have been brought forward in recent days from late 2022 to August 2022. This is well-ahead of the RBA's expectation that conditions for a cash rate increase will not be met before 2024.

**Foreign Exchange:** The defensive US dollar fell on expectations that interest rates will increase in other countries before they rise in the USA. The

USD Index fell from 94.0 to a low of 93.5, before recovering to 93.8.

The AUD/USD pair was one of the best performers on the day. The pair rose from a low of 0.7408 to a six-week high of 0.7486.

**Commodities:** Gold and iron ore were higher, while oil rose slightly to remain above \$82. Coal and copper fell.

**COVID-19:** NSW recorded 273 new cases and four deaths. Victoria recorded 1,749 new cases and 11 deaths. Elsewhere, the ACT recorded 24 new cases.

**Australia:** The Reserve Bank (RBA) maintained its dovish stance at the October board meeting. The meeting minutes reiterated that the central bank will not increase the cash rate until actual inflation is sustainably between the 2-3% range. This condition is not expected to met before 2024.

Members of the board acknowledged that the recent Delta outbreak across the country has interrupted the recovery of the Australian economy and data suggests a material decline in GDP for the September quarter. However, the impact is expected to be only temporary, as vaccination rates continue to increase and restrictions ease.

In the central scenario, the economy would return to growth in the December quarter and to its pre-Delta path in the second half of 2022. Board members also observed that the economic recovery was likely to be slower than the recovery that

occurred in late 2020 to early 2021.

Wages growth and underlying inflation are expected to pick up only gradually as the economy continues to recover.

In other data, the Roy Morgan weekly consumer confidence index rose 1.4% to 107.0 in the week ending 17 October. Consumer confidence rose as the lockdown in NSW came to an end after 106 days on 11 October along with speculation that the lockdown in Melbourne was to end earlier than anticipated.

**United States:** Supply constraints remained a concern as the backlog of houses waiting to be built rose further in September. The number of houses under construction currently exceeds completed homes by a record amount. Housing starts fell by 1.6% in September, following a revised increase of 1.2% in August. This was below consensus expectations of 0.0% growth. Building permits also fell by 7.7% in the month. This was down from a revised 5.6% gain in August and below consensus expectations of a 2.4% fall. A continuation of supply-chain concerns, including skilled labour shortages and higher costs of materials remain a challenge to builders. Despite supply-chain issues, the backlog of houses waiting to be built suggests that the pipeline of constructions remains strong.

FOMC member Michelle Bowman spoke of the challenges facing the labour market and the potential implications on the productive capacity of the economy. These included obstacles limiting female labour force participation, including limited options for affordable childcare, and an increase in retirements among older workers. On inflation, she noted that inflation may last longer than expected a few months ago.

Richmond Federal Reserve President Thomas Barkin also spoke on the labour market. He noted that improved education, health and childcare policies are needed to help drive employment growth beyond the COVID-19 pandemic. In the near term, increased demand for labour has resulted in wage increases, particularly for entry and lower-level positions.

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

AU WBC Leading Index Sep prev -0.3% (10:30am)

UK CPI Sep exp 0.4% prev 0.7% (5pm)

EZ ECB Current Account Aug prev €21.6bn (7pm)

EZ CPI y/y Sep Final exp 3.4% prev 3.0% (8pm)

US Federal Reserve's Beige Book (5am)

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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