Morning report

Thursday, 25 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,399	-0.2%			**Last**	**Overnight Chg**		**Australia**		
US Dow Jones	35,804	0.0%	10 yr bond		98.12	0.00		90 day BBSW	0.05	0.00
Japan Nikkei	29,303	-1.6%	3 yr bond		98.81	-0.02		2 year bond	0.67	-0.05
China Shanghai	3,765	0.1%	3 mth bill rate		99.94	-0.01		3 year bond	0.99	-0.02
German DAX	15,878	-0.4%	SPI 200		7,400.0	7		3 year swap	1.39	-0.06
UK FTSE100	7,286	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.86	-0.01
Commodities (close & change)*			TWI	60.9	-	-	60.9	**United States**		
CRB Index	238.4	0.2	AUD/USD	0.7228	0.7229	0.7184	0.7197	3-month T Bill	0.05	0.01
Gold	1,789.22	0.1	AUD/JPY	83.24	83.25	82.74	83.07	2 year bond	0.64	0.03
Copper	9,904.00	95.0	AUD/GBP	0.5401	0.5407	0.5384	0.5399	10 year bond	1.64	-0.03
Oil (WTI)	78.27	-0.2	AUD/NZD	1.0394	1.0484	1.0385	1.0469	**Other (10 year yields)**		
Coal (thermal)	161.15	9.3	AUD/EUR	0.6425	0.6442	0.6405	0.6425	Germany	-0.23	-0.01
Coal (coking)	369.00	-2.7	AUD/CNH	4.6180	4.6196	4.5970	4.6030	Japan	0.08	0.01
Iron Ore	105.70	2.7	USD Index	96.5	96.9	96.4	96.8	UK	1.00	0.00

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: Markets had to digest a slew of US economic data and minutes from the last Fed meeting ahead of a Thanksgiving holiday. The data included the Fed's preferred measure of prices inflation, which showed the fastest annual increase in three decades. The minutes suggested some Fed members would like to see faster tapering to allow for greater flexibility to raise interest rates sooner if necessary.

Share Markets: US share markets climbed as investors balanced a slew of data with tapering concerns fuelled by the Fed minutes. Technology shares led the gains. The Nasdaq was the outperformer amid low volumes ahead of a Thanksgiving holiday. The Nasdaq jumped 70 points (or +0.4%) and the S&P index rose 11 points (or +0.2%) within a whisker of a record high.

Yesterday, the ASX 200 index eased 11 points (or +0.2%).

Interest Rates: The US yield curve flattened overnight; the US 2-year yield dropped 3 basis points overnight while the 10-year yield eased 3 basis points.

The Australian 3-year government bond yield (futures) rose from 1.18% to 1.21% and the 10-year yield ranged between 1.87% and 1.93%. Pricing for the first rate hike from the RBA has moved back to August; the probability attached to July according to cash-rate futures is now 90%, almost fully priced.

Foreign Exchange: The US dollar climbed against every G-10 peer save the Canadian dollar. The US dollar strengthened against a basket of major currencies. The USD index rose from a low of 96.44 to a 17-month high of 96.94, before consolidating to 96.85. EUR/USD fell to a 17-month low of 1.1186 and the USD/JPY rose to a 5-year high of 115.48.

Another big mover was the Kiwi, which continued to sell off overnight after the Reserve Bank of New Zealand (RBNZ) hiked the official cash rate yesterday. The NZD/USD fell from a high yesterday of 0.6983 to a 3-month low overnight of 0.6856. The NZD also sold off against the AUD.

Selling pressures on the AUD/USD continued overnight; it fell to a 2-month low overnight of 0.7184, from its high yesterday of 0.7229. The pair is edging towards a crucial support of 0.7106, having last traded at that level in August this year, at the height of COVID-19 lockdown.

Commodities: Most commodities were firmer overnight, including oil.

OPEC's advisory body said overnight it expects the release of oil from the US Special Petroleum Reserve (SPR) will massively swell oil supply in global markets. However, the International Energy Agency (IEA) overnight also suggested Saudi Arabia, Russia and other major energy producers were creating "artificial tightness" in global oil and gas markets. It urged the group to accelerate the return of supplies.

COVID-19: South Australia has recorded its first COVID-19 case since the reopening of its interstate border with the east coast.

Australia: Construction work was down just 0.3% over the September quarter, following a revised 2.2% gain in the June quarter. The annual pace rose to 3.5% - the fastest in 3½ years.

The data shows the construction sector was resilient throughout the Delta lockdowns during the September quarter. This resilience was despite stringent restrictions in NSW and Victoria, which included a two-week construction shutdown in NSW.

Private-sector residential building work rose by 0.1%, driven by a solid lift in new private sector house construction. This growth was spurred by the robust pipeline of work from strong housing demand and policy incentives such as the HomeBuilder program. New private sector house construction was 17.2% above pre-pandemic levels.

Other residential construction (e.g. apartments and townhouses) was down 7.7% over the quarter and has been steadily declining since its peak in the June quarter of 2018.

Reserve Bank of Australia Assistant Governor Michele Bullock has acknowledged ultra-low interest rates are a key driver of surging interest in cryptocurrencies. She indicated the RBA was considering the creation of a ‘‘central bank digital currency’’ (CBDC) for use in wholesale markets. This would allow commercial banks to reduce transaction costs and risks by creating a system that settles transactions instantly. Bankers said it would help Australia participate in Web3, the part of the internet where communities use blockchain technologies to build new businesses. This includes digitising a range of assets, creating cryptocurrencies and making payments.

Eurozone: The German economy entered the fourth wave of the pandemic with business confidence already worsening. Germany’s prominent leading indicator – the IFO business climate index - dropped for the fifth month in a row in November, coming in at 96.5, from 97.7 in October. The index now stands at its lowest level since February this year. Both the current assessment and the expectations component weakened.

New Zealand: The RBNZ increased the official cash rate (OCR) by 25 basis points to 0.75% at the November Monetary Policy Statement. The move was widely expected, although a larger 50 basis point hike was also a risk. The RBNZ acknowledged that the strength of recent data made a case for a larger move. The deciding factor was uncertainty around how spending and investment would hold up as the country moved towards living with COVID-19. The labour market remains tight and demand in the economy is running hot, pointing to more sustained inflationary pressures. The RBNZ has flagged further rate rises; there are expectations the OCR will need to rise above the neutral rate to bring inflation back into the target range.

United Kingdom: The CBI survey of industrial trends for November was significantly stronger than expected by consensus. Headline orders rose to a record high of 26, from 9 the month before. Selling prices rose to 67 – the highest since 1977.

United States: Minutes from the last Fed policy meeting in November showed that worries about inflation dominated discussion. Some Fed members suggested the Fed should move more quickly to reduce its bond-buying program to give it flexibility to raise interest rates sooner if necessary.

The Fed has been buying $120 billion in bonds each month and has kept interest rates near zero. Earlier this month, the Fed took the first step toward withdrawing support for the economy when it announced that it would begin scaling back its Treasury bond and mortgage-backed security purchases by $15 billion a month starting in November.

Fed officials maintained their expectation that inflation would diminish “significantly during 2022,” but Fed members “indicated that their uncertainty regarding this assessment had increased.”

Prices climbed by 0.6% in October and by 5.0% in the 12 months through October, according to the personal consumption expenditures (PCE) index, the Fed’s preferred measure of inflation. The annual rate was the fastest since in three decades. The core PCE index rose 0.4% in the month and by 4.9% in the year.

The second estimate for GDP was upgraded to an annualised growth rate of 2.1% for the third quarter, from 2.1% in the advance estimate. However, the result was lower than the 2.2% forecasted by consensus.

Durable goods orders (i.e. order for long-lasting goods such as appliances and computers) decreased for the second straight month in October as US manufacturers continued to confront higher material and shipping costs as well as labour and parts shortages. New orders decreased by 0.5% in October when compared with September. Consensus had expected a gain of 0.3%. Orders for the previous month, September, were also revised lower – from a fall of 0.3% to a fall of 0.4%.

However, demand for durable goods has increased in 15 of the past 18 months and on a year ago, orders are up 22.1%. Deplenished business and retail inventories, plus strong consumer spending, have translated to increased demand for manufacturers. But supply-chain bottlenecks continue to constrain production and delay some shipments.

New orders for non-defence capital goods excluding aircraft - core capital-goods orders – is a closely watched proxy for business investment. This measure lifted 0.6% in October compared with the previous month.

Personal income rose by 0.5% in October even as government assistance to workers during the pandemic subsided further. The outcome beat consensus expectations of a 0.2% increase.

Personal spending rose by a sharp 1.3% in October, which also beat consensus expectations. After adjusting for price changes, real spending remained strong at 0.7%.

The indicators on spending and income show strong improvements compared to September, as the US economy came back from the Delta variant's surge in late August and early September.

The University of Michigan consumer confidence index fell 4.3% to 67.4 in November, following a preliminary reading of 66.8. The index is at its lowest level since the end of 2011, showing signs that consumers are becoming increasingly uneasy about surging inflation.

New homes sales for October edged up to 745k, following a revised result of 742k in September. However, sales were below consensus estimates of 800k. New home demand remains strong, despite record high prices. However, supply-chain disruptions and labour shortages continue to put upward pressure on building costs.

The ranks of those submitting jobless claims tumbled to their lowest level in more than 52 years. Initial jobless claims totalled 199,000 last week, a number not seen since 15 November 1969 when claims totalled 197,000. The report easily beat Dow Jones estimates of 260,000 and was well below the previous week's outcome of 270,000.

Today's key data and events:

AU Private CAPEX Q3 exp -4.8% prev 4.4% (11:30am)
NZ Trade Balance Oct prev -$2.2bn (8:45am)
US Thanksgiving Holiday (Markets Closed)

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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