

Thursday, 28 October 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,449	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	35,491	-0.7%	10 yr bond	98.18		0.02		90 day BBSW	0.04	0.00
Japan Nikkei	29,098	0.0%	3 yr bond	98.76		-0.10		2 year bond	0.21	0.05
China Shanghai	3,733	-1.0%	3 mth bill rate	99.89		-0.01		3 year bond	0.93	0.16
German DAX	15,706	-0.3%	SPI 200	7,380.0		-40		3 year swap	1.29	0.28
UK FTSE100	7,253	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.81	0.01
Commodities (close & change)*			TWI	62.9	-	-	63.0	United States		
CRB Index	238.9	0.0	AUD/USD	0.7504	0.7536	0.7488	0.7516	3-month T Bill	0.05	-0.01
Gold	1,796.81	3.9	AUD/JPY	85.65	86.06	85.05	85.56	2 year bond	0.50	0.06
Copper	9,885.50	-75.3	AUD/GBP	0.5451	0.5478	0.5446	0.5469	10 year bond	1.54	-0.07
Oil (WTI)	82.07	-2.6	AUD/NZD	1.0477	1.0519	1.0465	1.0487	Other (10 year yields)		
Coal (thermal)	180.30	-16.7	AUD/EUR	0.6469	0.6494	0.6458	0.6479	Germany	-0.18	-0.06
Coal (coking)	397.17	1.5	AUD/CNH	4.7857	4.8144	4.7834	4.8061	Japan	0.10	-0.01
Iron Ore	115.90	-1.7	USD Index	93.9	94.0	93.7	93.9	UK	0.99	-0.12

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: US stocks dropped from record highs and yield curves flattened. The Bank of Canada surprised markets with an abrupt end to quantitative easing. Local inflation data was stronger-than-expected, prompting a sharp rise in Australian 3-year bond and swap yields.

Share Markets: US stocks fell, with the Dow down 0.7% and the S&P 500 slipping 0.5%. The ASX 200 rose 0.1%.

Interest Rates: The US 10-year treasury yield fell 7 basis points to 1.54%, while the 2-year yield rose 6 basis points to 0.50% following the Bank of Canada's decision.

The Australian 10-year (futures) yield was largely unchanged at 1.83% while the 3-year futures yield extended the post-CPI reaction, lifting 10 basis points to 1.24%. The first Reserve Bank rate hike is fully priced for the middle of 2022.

Foreign Exchange: The AUD/USD moved sideways in choppy trade between 0.7536 and 0.7488, and is currently trading at 0.7516. The US dollar was unchanged on the day.

Commodities: Chinese policymakers held a special meeting to consider measures to intervene in the coal market, as the country grapples with a power shortage and skyrocketing coal prices.

WTI crude oil fell while gold firmed.

COVID-19: NSW recorded 304 new cases and three

deaths yesterday. Victoria recorded 1,534 new cases and 13 deaths. Elsewhere, the ACT recorded 10 new cases.

The Therapeutic Goods Administration has provisionally approved the use of Pfizer booster shots for all Australian's aged 18 and over. The booster is to be taken at least 6 months after the second dose even if the first two doses were not Pfizer.

Australia: Inflation numbers released yesterday showed that Australia isn't immune to growing inflationary pressures that have impacted other economies around the world.

The headline consumer price index (CPI) rose by 0.8% in the September quarter 2021, in line with consensus expectations, to be 3.0% higher over the year.

But here is where it gets interesting. Trimmed mean inflation, the Reserve Bank's (RBA) preferred measure of underlying inflation, rose 0.7% in the quarter, to the 2.1% higher over the year. This was notably stronger than the 0.5% rise that was expected and marks the first time annual underlying inflation was within the RBA's 2-3% target band since 2015. The RBA expected underlying inflation to reach the band much later in 2023.

Indeed, swap and bond rates jumped markedly higher in yesterday's trading session, reflecting investors' growing expectation that the RBA will be

forced to lift the cash rate sooner than the central bank has flagged.

The housing boom, fuel costs and global supply-chain disruptions contributed to inflationary pressures in the quarter. However, some of the strength in headline inflation reflects base effects due to the unwinding of pandemic-related price reductions from 2020.

We expect the headline rate to continue to drop in the period ahead, while we expect the underlying inflation rate to move into the upper end of the RBA's target band by the end of next year, in turn spurring the RBA to lift the cash rate in 2023.

China: Industrial profits grew by 16.3% over the year to September, up from 10.1% over the year to August. Profits were supported by a spike in profitability for companies that mine and manufacture raw materials as energy prices surged. Overall, the industrial sector has been negatively impacted by surging coal prices, supply shortages and power rationing.

Eurozone: M3 money supply grew 7.4% over the year to September, down from the 7.9% annual growth in August.

New Zealand: The trade deficit widened to a record \$2.2bn in September from \$2.1bn in August. Surging imports continue to be the main contributor to the deficit following a third successive record month. The annual trade deficit for the year ended September 2021 was \$4.1bn. This follows a revised \$2.9bn outcome for the year ended August 2021.

Separately, business confidence fell to -13.4 in October, down from -8.6 in September. Business expectations for activity continue to remain firm despite parts of the North Island being on high alert following the recent Delta outbreak. Inflationary pressures remain strong, as expectations for inflation over the coming year rose to 3.45%. Inflation expectations now sit at their highest level since August 2011 and are well above the Reserve Bank of New Zealand's target range of 1-3%.

United Kingdom: The Autumn budget contained a more positive economic outlook, with the UK economy expected to recover to pre-COVID levels by 2022. Annual growth was forecast at 6.5% for 2021 and 6% for 2022. The budget also indicated a lower debt profile. On balance, the fiscal profile remains slightly expansionary.

United States: Durable goods orders contracted 0.4% in September, although the fall was smaller than expected. Excluding transport, the measure

was in line with expectations at 0.4% growth in the month.

Canada: The Bank of Canada unexpectedly ended its bond-buying program and accelerated the timeline for potential rate hikes amid growing inflation concerns. Officials signalled rates hikes are more likely in the middle quarters of 2022.

Today's key data and events:

AU Trade Price Indices Q3 (11:30am)
 Import Prices exp 4.0% prev 1.9%
 Export Prices exp 6.5% prev 13.2%
 EZ Consumer Confidence Oct Final prev -4.8% (8pm)
 EZ Economic Confidence Oct exp 116.6 prev 117.8 (8pm)
 EZ Industrial Confidence Oct exp 12.9 prev 14.1 (8pm)
 EZ ECB Monetary Policy Meeting (10:45pm)
 Main Refinance Rate exp 0.00% prev 0.00%
 US Initial Jobless Claims w/e 23 Oct exp 289k prev 290k (11:30pm)
 US GDP Q3 exp 2.6% prev 6.7% (11:30pm)
 US Core PCE Q3 exp 4.4% prev 6.1% (11:30pm)
 US Pending Home Sales Sep exp 0.5% prev 8.1% (1am)
 US Kansas City Fed Index Oct exp 19 prev 22 (2am)
 JN Bank of Japan Policy Meeting (Time TBC)
 Policy Balance Rate exp -0.10% prev -0.10%

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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