Morning report

Friday, 29 October 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,430	-0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,730	0.7%	10 yr bond	98.05		-0.09		90 day BBSW	0.06	0.02
Japan Nikkei	28,820	-1.0%	3 yr bond	98.64		-0.03		2 year bond	0.54	0.33
China Shanghai	3,687	-1.2%	3 mth bill rate	99.81		-0.02		3 year bond	1.12	0.19
German DAX	15,696	-0.1%	SPI 200	7,422.0		18		3 year swap	1.41	0.00
UK FTSE100	7,249	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.84	0.03
Commodities (close & change)*			TWI	63.0	-	-	62.9	**United States**		
CRB Index	238.5	0.0	AUD/USD	0.7516	0.7556	0.7480	0.7541	3-month T Bill	0.05	-0.01
Gold	1,798.91	2.1	AUD/JPY	85.56	85.71	85.11	85.65	2 year bond	0.49	-0.01
Copper	9,815.50	190.5	AUD/GBP	0.5469	0.5478	0.5451	0.5467	10 year bond	1.58	0.04
Oil (WTI)	82.81	0.2	AUD/NZD	1.0487	1.0492	1.0456	1.0474	**Other (10 year yields)**		
Coal (thermal)	168.70	-11.6	AUD/EUR	0.6479	0.6495	0.6451	0.6456	Germany	-0.14	0.04
Coal (coking)	397.62	0.4	AUD/CNH	4.8061	4.8271	4.7874	4.8184	Japan	0.09	-0.01
Iron Ore	110.00	-1.2	USD Index	93.9	94.0	93.3	93.4	UK	1.01	0.02

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: The US S&P 500 and Nasdaq share market indexes hit new record highs. US GDP numbers were weaker than expected for Q3, but have failed to dent sentiment.

The European Central Bank’s Christine Lagarde pushed back on expectations that the ECB might raise rates before 2023, but financial markets are not in agreement.

Share Markets: US share markets rose overnight, as traders shrugged off disappointing US economic growth data to focus on a flurry of strong earnings reports. Quarterly numbers from Apple and Amazon were due after the closing bell. The Dow jumped 240 points (or +0.7%), the S&P 500 lifted 45 points (or +1.0%) and the Nasdaq rose 212 points (or +1.4%). Both the S&P 500 and Nasdaq hit record highs.

Interest Rates: The US 2-year bond yield eased 1 basis point, after weaker-than-expected GDP data in the US. The 10-year yield, however, rose 4 basis points.

The Reserve Bank (RBA) is under increasing pressure to haul bond yields back into line with an unscheduled operation today or justify its sanguine inflation view at a policy meeting next week, after opting not to defend its 3-year bond yield target yesterday. That contributed to the April 2024 bond yield — already at double the central bank's 0.10% target — to rocket to an unprecedented 0.54%. The RBA beat back traders in February by simultaneously purchasing those bonds and making it more expensive to short them and did the same late last week.

Elsewhere, German Bund yields rose significantly overnight. Investors have ramped up their bets on eurozone interest rate rises, despite European Central Bank (ECB) President Christine Lagarde’s insistence that an increase was not anticipated before the end of 2022

Foreign Exchange: The US dollar index is down 0.5% on the day and at a one-month low. EUR/USD rose during the ECB’s press conference from 1.1582 to a one-month high of 1.1692. The AUD/USD pair rose from 0.7510 to a 4-month high of 0.7556, as market expectations of a rate rise from the RBA around the middle of next year remained elevated.

Commodities: Commodities were mostly firmer, including world oil prices.

COVID-19: NSW recorded 293 new cases and two deaths yesterday. Victoria recorded 1,923 new cases and 25 deaths. Elsewhere, the ACT recorded eight new cases.

Australia: The export price index rose 6.2% in the September quarter, and 41.0% over the year, driven by surging coal and gas prices. The import price index climbed 5.4% in the September quarter. The rise mostly supported by increases in petroleum prices, following stronger oil demand and supply constraints.

China: Evergrande's next big deadline looms later today when the 30-day grace period ends for a US$45.2 million missed coupon. The developer last week made another overdue payment at the tail-end of extra time and a repeat would buy it time to raise money via asset sales. A delinquency could trigger cross-default clauses and even push it into bankruptcy and prolong a selloff of Chinese junk debt.

Eurozone: After a two-day meeting of its governing council, the ECB said its €1.85 trillion pandemic emergency purchase programme (PEPP) would continue, although at “a moderately lower pace” than the €80 billion-a-month level it ran at until last month.

Lagarde said she expected PEPP to end in March, adding that the decision on whether to expand an earlier asset purchase programme to offset some of the reduction would not be made until December. The €1.41 trillion already spent under PEPP since it was launched in response to the COVID-19 crisis last year has taken the ECB’s overall portfolio of assets to €4.5 trillion and allowed it to exceed a self-imposed limit to own no more than a third of any country’s eligible sovereign debt.

The ECB also kept its deposit rate unchanged at minus 0.5%. The ECB President Lagarde dismissed fears of “stagflation” and said the euro area economy was still recovering strongly, even if it had lost momentum recently due to the supply-chain problems and the surge in energy prices. However, in a subtle shift from previous statements, Lagarde said inflation would “take longer to decline than originally expected” and supply issues should take a "good chunk" of 2022 to resolve. However, she expressed confidence inflation would fall below the ECB’s 2% target by 2023.

The ECB president also added that the ECB’s analysis did “not support” market expectations for a rate rise before the end of 2022. Nevertheless, even as Lagarde spoke on Thursday, investors ramped up their bets of an ECB rate rise. Markets are currently pricing in a 0.1 percentage point rise by September next year.

United States: The US economy grew less than expected in the third quarter as snarled supply chains and the pandemic throttled spending and investment. GDP expanded by an annualised 2.0% after a 6.7% pace in the prior period. Personal consumption plummeted, rising 1.2% compared with 12% in the second quarter, thanks in part to a lack of available cars to buy.

The headline personal consumption expenditure (PCE) deflator fell to annualised growth of 5.7%, from 6.1% in the previous quarter. Core PCE showed annualised growth of 4.5% in Q3 - in line with consensus expectations. The result was also down from 6.1% in Q2.

Initial unemployment claims fell to 281,000 in the week ended October 23 versus 288,000 expected by consensus and a revised 291,000 during the prior week. The latest jobless claims data reflect the smallest number of new filings since March 2020.

The four-week moving average for new jobless claims dropped to 299,250, but that is still higher than the 225,500 in place on 14 March 2020 — just before the nationwide economic shutdown forced millions into unemployment.

Pending home sales, which are a measure of signed contracts to buy existing homes, fell an unexpected 2.3% in September compared with August, according to data from the National Association of Realtors. Consensus was predicting a slight monthly gain. Sales were 8% lower compared with September 2020.

Today’s key data and events:

NZ ANZ Consumer Confidence Oct prev -4.7% (8am)

AU Retail Sales (11:30am)

Nominal Sep exp 0.0% prev -1.7%

Volumes Q3 exp -5.2% prev 0.8%

AU Private Sec. Credit Sep exp 0.4% prev 0.6% (11:30am)

AU PPI Q3 prev 0.7% (11:30am)

EZ GDP Q3 exp 2.1% prev 2.2% (8pm)

EZ CPI Core Oct y/y Prel. exp 1.9% prev 1.9% (8pm)

US Employ. Cost Index Q3 exp 0.9% prev 0.7% (11:30pm)

US Personal Income Sep exp-0.2% prev 0.2% (11:30pm)

US Personal Spending Sep exp 0.6% prev 0.8% (11:30pm)

US PCE Core Deflator Sep prev 0.3% exp 0.2% (11:30pm)

US Chicago PMI Oct exp 63.5 prev 64.7 (12:45am)

US UoM Cons. Sent. Oct Final exp 71.4 prev 71.4 (1am)

CH Non-Mfg PMI Oct exp 53.3 prev 53.2 (12pm Oct 31)

CH Mfg PMI Oct exp 49.8 prev 49.6 (12pm Oct 31)

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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