Morning report

Bank of Melbourne

Tuesday, 30 November 2021

Equities (close & % change)		
S&P/ASX 200	7,240	-0.5%
US Dow Jones	35,136	0.7%
Japan Nikkei	28,284	-1.6%
China Shanghai	3,734	0.0%
German DAX	15,281	0.2%
UK FTSE100	7,110	0.9%
Commodities (close & change)*		
CRB Index	225.7	-1.0
Gold	1,783.54	-19.1
Copper	9,670.50	92.5
Oil (WTI futures)	69.60	1.5
Coal (thermal)	156.00	-17.0
Coal (coking)	300.17	4.7
Iron Ore	102.45	0.0

Sydney Futures Exchange (close & change)				
	Last			**Overnight Chg**
10 yr bond	98.27			0.02
3 yr bond	98.92			0.00
3 mth bill rate	99.95			0.00
SPI 200	7,255.0			41
FX Last 24 hrs	Open	High	Low	Current
TWI	60.4	-	-	60.3
AUD/USD	0.7143	0.7160	0.7114	0.7131
AUD/JPY	81.08	81.41	80.65	81.05
AUD/GBP	0.5361	0.5369	0.5337	0.5361
AUD/NZD	1.0461	1.0497	1.0429	1.0475
AUD/EUR	0.6294	0.6348	0.6288	0.6321
AUD/CNH	4.5637	4.5703	4.5473	4.5558
USD Index	96.09	96.45	96.14	96.29

Interest rates (close & change)		
Australia		
90 day BBSW	0.05	0.00
2 year bond	0.65	-0.01
3 year bond	0.91	-0.02
3 year swap	1.32	0.08
10 year bond	1.74	0.00
United States		
3-month T Bill	0.04	-0.01
2 year bond	0.51	0.01
10 year bond	1.51	0.04
Other (10 year yields)		
Germany	-0.32	0.02
Japan	0.08	0.00
UK	0.86	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: Global markets were calmer in trading overnight. It follows the very sharp and volatiles moves in asset prices in the previous trading session. The VIX index fell 6.5 points to 22.2 from a 9-month high, although remains at an elevated level. Investors appeared to take a more balanced view about the threat from Omicron with the impact of this variant still unclear. Global share markets recovered and government bond yields in the major economies rose.

Share Markets: Global share markets rallied, as relative calm returned. The S&P 500 index rose 63 points (or 1.4%), partially erasing its 107 point loss in the previous trading session. The Dow also rose, although underperformed the S&P 500. The Dow lifted 237 points or 0.7%. The Nasdaq was one of the outperformers, jumping 291 points or nearly 2%. Across in Europe, the Euro Stoxx 50 rose 20 points or 0.5%. Other European indices also posted firm gains.

Yesterday the ASX 200 lost 40 points (or -0.5%).

Interest Rates: US bond yields rose across the yield curve overnight. The US 2-year bond yield increased 1 basis point to 0.51%, not recovering much of the 14 basis point fall recorded in the previous trading session. The US 10-year yield rose 4 basis points to 1.51%, only partially recovering the 16 basis point loss in the previous trading session.

US interest-rate markets are expected the US Fed to start hiking the federal funds rate in August 2022. As more information about the Omicron variant emerges, this pricing could shift.

The Australian 3-year government bond yield (futures) ranged between 1.08% and 1.14%, while the 10-year yield ranged between 1.74% and 1.79%.

Australian interest-rate markets are expecting the first rate hike from the RBA to arrive in August. There is a probability of 112% attached to an August move (and 71% attached to a July move) using cash-rate futures. These probabilities have been wound back since last Tuesday.

Foreign Exchange: The USD index lifted off a one-week low of 95.75 to rise to an overnight high of 96.45. The traditional safe-haven currencies, like the CHF and JPY, weakened, as some of the fears about the new coronavirus variant receded.

The AUD/USD stuck to a narrow trading range of 0.7114 to 0.7160 and again lacked some clear direction. Importantly, the key support level of 0.7106 continued to elude the AUD with the overnight low being 0.7114. Indeed, the AUD has now made around 4 attempts towards breaking under this 0.7106 handle, but the nearest it has managed has been 0.7113 in early trade on 26 November.

Traders appear reluctant to take it under this key level. The net short positions for non-commercial positions have lessened since early October and suggest the sell off could be running out of steam.

A clean, sustained break under 0.7106 will spell a more bearish outlook for the AUD/USD in the short term. However, if the AUD/USD continues to elude 0.7106, then it is possible the AUD remains in a consolidation phase from its rapid rise of 0.5107 to 0.8007 between March 2020 and February 2021.

Commodities: The West Texas Intermediate price of oil closed 2.1% higher after earlier rallying as much as 7% - a rebound from its biggest daily percentage drop in 7 months in the previous session. Traders are weighing Omicron risks and the potential response from OPEC.

Perhaps more importantly (for me at least!), data showed that stockpiles of certified arabica fell almost 10% last week to the lowest since January. It was the biggest weekly percentage drop since 1998.

Prices for these high-end coffee beans are continuing to soar; prices climbed for a fifth straight week last week after production slumps in top producers. Brazil and Colombia.

COVID-19: The Australia government has paused the further easing of border restrictions, after the Prime Minister met with the national security committee yesterday and Australia's chief health officer.

The announcement came as Australia recorded its fifth case of the Omicron variant. Four of these cases have been detected in NSW, while another person who arrived in the Northern Territory from South Africa has also tested positive.

Officials on Sunday ordered 14-day quarantine for citizens returning from nine African countries.

Federal Health Minister Greg Hunt has also asked Australia's immunisation advisory group to review the time frame for COVID-19 booster shots, in light of the new strain.

BioNTech and Moderna announced in the US that they are working to adapt their shots to address Omicron. BioNTech said it could have a new version of the vaccine within 100 days. J&J is also pursuing a vaccine to target the variant.

The World Health Organisation (WHO) said it's too early to tell how transmissible and severe Omicron is.

Australia: Gross operating profits for businesses rose 4.0% in the September quarter. The increase was underpinned by government subsidies, which more than offset the disruptions caused by the Delta lockdowns. This rise follows a 7.1% increase in profits over the June quarter and lifts company profits 27.5% above pre-pandemic levels.

Business inventories fell 1.9% over the quarter, the biggest fall since the June quarter of 2020, following the national lockdown. Global supply-chain disruptions persisted over the quarter, impacting the replenishing of inventories. The wholesale trade and manufacturing sectors experienced the sharpest decline in inventories, falling 4.4% and 1.3%, respectively.

Wages and salaries dipped 0.8% in the September quarter, alongside lockdowns in NSW, Victoria, and the ACT. However, wages and salaries remain 4.7% up on a year earlier and comfortably above pre-pandemic levels.

News reports suggest the Federal Budget will be brought forward to 29 March next year. The Federal Budget is usually the second Tuesday in May. It will be the first time in Australia's history there will be a March budget (previous earliest was April 2 in 2019).

Eurozone: The final outcome for consumer confidence for the euro area in November remained unchanged at -6.8.

There were also confidence measures for economic and industrial released for the month of November. Both of these measures softened. The economic confidence index fell from 118.6 in October to 117.5 in November. The industrial confidence index fell from 14.2 in October to 14.1 in November.

The services confidence index bucked the trend and improved in November, rising to 18.4, from 18.0 in October.

United States: Signed contracts on existing homes, pending sales, jumped 7.5% in October. Sales were still 1.4% lower than October 2020, but last October marked a cyclical high in the housing market. The data shows demand for housing remains relatively high amid low inventories.

Total housing inventory at the end of October stood at 1.25 million units, down 0.8% from September and down 12.0% from one year ago. At the October sales pace, that represents an extremely low 2.4-month supply. A four- to six-month supply is generally considered a balanced market between buyers and sellers.

The Dallas Fed activity manufacturing activity index pulled back to 11.8 in November, from 14.6 in October. However, the headline belies a strong survey. The production sub index rose 9.1 points to

27.4. New orders rose 4.7 points to 19.6. Employment and wages also firmed and the prices paid index rose to a new record high of 82.1.

The future components were also strong; future production rose to 51.7 (from 45.8) and future general activity jumped to 28.6 (prior 15.0).

Today's key data and events:

NZ ANZ Business Confidence Nov Final prev -18.1 (11am)

AU Balance of Payments Q3 (11:30am)

Current Account exp $31.0bn prev $20.5bn

Net Exports Contrib. to GDP exp 1.2ppt prev -1.0ppt

AU Building Appr. Oct exp -4.0% prev -4.3% (11:30am)

AU Priv. Sector Credit Oct exp 0.5% prev 0.6% (11:30am)

CH Non-Mfg PMI Nov exp 51.5 prev 52.4 (12 pm)

CH Mfg PMI Nov exp 49.7 prev 49.2 (12 pm)

EZ CPI Nov y/y Prel. exp 0.0% prev 0.8% (9pm)

US FHFA House Prices Sep exp 1.2% prev 1.0% (1am)

US S&P CoreLogic CS House Prices Sep exp 1.25 prev 1.17% (1am)

US Chicago PMI Nov exp 67.0 prev 68.4 (1:45am)

US Cons. Conf. Index Nov exp 110.7 prev 113.8 (2am)

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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