

Friday, 3 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,225	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	34,640	1.8%	10 yr bond	98.32		0.00	90 day BBSW	0.06	0.00	
Japan Nikkei	27,753	-0.7%	3 yr bond	98.88		-0.01	2 year bond	0.68	0.02	
China Shanghai	3,746	-0.1%	3 mth bill rate	99.94		-0.01	3 year bond	0.93	0.01	
German DAX	15,263	-1.4%	SPI 200	7,257.0		39	3 year swap	1.36	0.05	
UK FTSE100	7,129	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.68	-0.05
Commodities (close & change)*			TWI	60.3	-	-	59.8	United States		
CRB Index	219.5	1.2	AUD/USD	0.7097	0.7120	0.7085	0.7090	3-month T Bill	0.05	0.00
Gold	1,768.83	-12.9	AUD/JPY	80.05	80.56	79.91	80.24	2 year bond	0.62	0.07
Copper	9,498.25	-24.3	AUD/GBP	0.5349	0.5357	0.5322	0.5331	10 year bond	1.44	0.03
Oil (WTI futures)	66.88	1.3	AUD/NZD	1.0426	1.0445	1.0405	1.0404	Other (10 year yields)		
Coal (thermal)	154.10	1.8	AUD/EUR	0.6272	0.6285	0.6248	0.6275	Germany	-0.37	-0.03
Coal (coking)	314.50	7.0	AUD/CNH	4.5240	4.5350	4.5169	4.5184	Japan	0.06	0.00
Iron Ore	103.00	1.9	USD Index	96.11	96.18	95.83	96.13	UK	0.81	-0.01

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: US equity markets recovered some of their recent losses as the S&P 500 recorded its largest one-day gain since 14 October. Interest rates increased following hawkish comments from several Fed members. Vaccine manufacturers expect existing vaccines and treatments to provide some protection against Omicron, as more testing is undertaken.

Share Markets: US equities rose as dip buying emerged following two days of losses. The S&P 500 closed 1.4% higher, to record its largest one-day gain since 14 October. The Nasdaq was 0.8% higher and the Dow Jones rose 1.8%.

European markets closed lower on the day. The Euro Stoxx 50 was down 1.7% and the German DAX fell 1.4%.

The ASX 200 fell 0.1%. Futures are pointing to a strong open today.

Interest Rates: Interest rates rose following hawkish comments from several Fed members. The yield curve flattened as short-term rates rose by more than long-term rates. The 2-year Treasury yield rose 6 basis points to 0.61%. The 10-year Treasury yield rose 3 basis points to 1.43%.

The Australian 10-year government bond yield (futures) fell from 1.70% to 1.69%. The 3-year government bond yield (futures) was broadly unchanged at around 1.12%.

The market expects the first Reserve Bank rate hike

to be in August 2022, based on interbank cash rate futures.

Foreign Exchange: The US dollar was broadly unchanged against a basket of major currencies. The USD index rose from a low of 95.8 to a high of 96.2, before closing at 96.1, around where it opened the session.

The AUD/USD pair traded in a narrow range compared to the previous two days. The pair ranged between a high of 0.7121 and a low of 0.7085, before recovering to trade at 0.7090 at the time of writing.

Commodities: OPEC+ has decided to continue with their planned increase to production, despite reports that the scheduled increase of 400,000 barrels a day in January could be reduced by half. However, the group indicated that the decision could be altered at any moment as the risk of Omicron becomes more evident. The decision was not expected by traders and led to large moves in oil prices. WTI futures ranged between a low of \$62.43 and a high of \$67.36, before closing at \$66.88.

Gold and coal were higher on the day, while iron ore and copper fell.

COVID-19: The US recorded its second case of Omicron, a double-vaxxed Minnesota resident who had recently returned from a conference in New York. US President Biden will soon outline a plan to

quell the pandemic.

Germany imposed restrictions on non-vaccinated people and the U.K. reported the most new cases since July. A key European health agency said that Omicron is spreading so quickly that it could account for more than half of Europe's cases in a few months.

Vaccine manufactures discussed the efficacy of existing vaccines and potential for new vaccines. Pfizer said that it expects its vaccine to have some efficacy against the new variant and that data should be available within two to three weeks. Novavax said that it was developing a vaccine specifically for Omicron. Glaxo noted that its antibody treatment showed efficacy in early testing.

Australia: Housing lending, excluding refinancing, fell 2.5% in October, led by a continued decline in new owner-occupier lending. New loan commitments have fallen in four of the last five months. Delta-related lockdowns have contributed to some of this slowdown. However, there is a clear divergence between lending to owner-occupiers and investors.

New owner-occupier lending fell 4.1% to its lowest level since November 2020. Lending to this segment has dropped for five straight months and is down 15.4% from its peak in May 2021.

In contrast, new lending to investors continued to grow. Investor lending rose by 1.1% in October to its highest level since the series peak in April 2015. Moreover, investor lending has grown for twelve consecutive months and has accelerated 89.6% on a year ago.

Indeed, new lending to investors is now 87.0% above pre-pandemic levels (as of February 2020), while new lending to owner-occupiers has pulled back to be 42.5% above pre-pandemic levels.

Affordability constraints continue to weigh on first-home buyers. The number of new loans to first-home buyers fell 3.8% in October, taking the string of monthly falls to nine. The share of new loans to first-home buyers has fallen from the peak of 36.5% in January to 30.0% in October – the lowest share since mid 2019.

The trade surplus narrowed by \$604 million to \$11.2bn in October, in line with market expectations. Both exports and imports pulled back over the month, falling 3.3% and 2.7%, respectively.

The decline in exports followed was driven by a sharp fall in the price of iron ore. Indeed, the iron ore price has plunged over 50% from its May high to

be around US\$110 per metric tonne at the end of October. Services exports continued to struggle, as international borders remained closed.

Imports also slumped in October, as lockdowns in NSW, Victoria and the ACT weighed on domestic demand.

Eurozone: Unemployment fell to 7.3% in October, down from 7.4% in September. The outcome was in line with consensus expectations. The number of unemployed people fell by 64,000, to 12.0 million.

The producer price index (PPI), which measures changes in the selling prices received by domestic producers for their output, rose by a staggering 21.9% over the year to October. This was above lofty expectations of 19.0% growth. The monthly growth rate was 5.4%, almost twice as high as the revised September outcome of 2.8%.

Energy price increases were a major contributor to the gain. The ex-energy and construction measure rose by a relatively more muted 8.9% over the year and 0.8% over the month.

New Zealand: The terms of trade index – the difference between export and import prices – rose 0.7% in the September quarter. The index is up 5.6% in annual terms. The terms of trade has now improved for four consecutive quarters, following a large fall in the September quarter of 2020.

United States: Weekly jobless claims for the week ending 27 November rose to 222k, up from a revised 194k in the prior period. This was below consensus expectations of 240k.

Several Fed members spoken overnight. Comments in general were hawkish and supported the prospect of a faster pace of tapering bond purchases and rate hikes.

Bostic supported ending the Fed's bond buying program towards the end of the first quarter and noted that it may be "appropriate for us to pull forward the lift-off" on rate rises if inflation remained elevated in 2022.

Daly also suggested that tapering at a faster pace may be required, but doubted rate hikes will need to be aggressive.

Barkin supported a stance towards more normalisation and Quarles agreed on a faster pace of tapering.

Mester said that "making the taper faster is definitely buying insurance and optionality so that if inflation doesn't move back down significantly next year we are in a position to be able to hike if we have to".

Today's key data and events:

CH Caixin Serv. PMI Nov exp 53.0 prev 53.8 (12:45pm)
EZ Markit Serv. PMI Nov Final exp 56.6 prev 56.6 (8pm)
EZ Retail Sales Oct exp 0.3% prev -0.3% (9pm)
UK Markit/CIPS Serv. PMI Nov Final exp 58.6 prev 58.6
(8:30pm)
US Non-farm Payrolls Change Nov exp 545k prev 531k
(12:30am)
US Unemploy. Rate Nov exp 4.5% prev 4.6% (12:30am)
US Average Hourly Earnings Nov exp 0.4% prev 0.4%
(12:30am)
US Markit Services PMI Nov Final exp 57.0 prev 57.0
(1:45am)
US ISM Non-Mfg Nov exp 65.0 prev 66.7 (2am)
US Factory Orders Oct exp 0.5% prev 0.2% (2am)
US Durable Goods Orders Oct Final exp -0.5% prev -0.5%
(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.

Jarek Kowcza, Senior Economist
Ph: 0481 476 436

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Economist

Matthew Bunny
matthew.bunny@bankofmelbourne.com.au
(02) 8254 0023

Senior Economist

Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Associate Economist

Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
0401 102 789

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
