

Tuesday, 7 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,245	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	35,228	1.9%	10 yr bond	98.39				90 day BBSW	0.06	0.00
Japan Nikkei	27,927	-0.4%	3 yr bond	98.95				2 year bond	0.64	-0.03
China Shanghai	3,762	-0.5%	3 mth bill rate	99.94				3 year bond	0.87	-0.03
German DAX	15,381	1.4%	SPI 200	7,314.0				3 year swap	1.30	0.03
UK FTSE100	7,232	1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.58	-0.03
Commodities (close & change)*			TWI	59.7	-	-	59.3	United States		
CRB Index	223.2	2.6	AUD/USD	0.7007	0.7054	0.6995	0.7047	3-month T Bill	0.04	-0.01
Gold	1,779.24	-4.0	AUD/JPY	79.07	80.03	78.93	79.97	2 year bond	0.63	0.04
Copper	9,489.00	-104.0	AUD/GBP	0.5295	0.5327	0.5284	0.5315	10 year bond	1.43	0.09
Oil (WTI futures)	69.80	3.5	AUD/NZD	1.0364	1.0451	1.0349	1.0434	Other (10 year yields)		
Coal (thermal)	144.60	-6.9	AUD/EUR	0.6192	0.6254	0.6186	0.6246	Germany	-0.39	0.00
Coal (coking)	330.67	14.7	AUD/CNH	4.4668	4.4968	4.4595	4.4926	Japan	0.05	-0.01
Iron Ore	107.05	3.0	USD Index	96.12	96.43	96.13	96.29	UK	0.74	-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: News from South Africa that surging Omicron cases haven't so far led to a spike in hospitalisations supported market sentiment. Equity markets rebounded as risk aversion decreased. Bond yields were higher. The AUD/USD recovered from a 13-month low on Friday night.

Share Markets: Equity markets rebounded as investor sentiment was buoyed by reports that Omicron cases have been relatively mild and that hospitalisations have not yet spiked in South Africa following a surge in Omicron cases.

The S&P 500 rose 1.1%, the Nasdaq was 0.9% higher and the Dow Jones recovered 1.9%.

Interest Rates: Interest rates rose in line with improving risk sentiment and the US yield curve steepened as long-term bond yields rose by more than short-term yields. The US 10-year bond yield rose 9 basis points to 1.43%. The 2-year yield rose 4 basis points to 0.63%.

The Australian 3-year government bond yield (futures) rose from 1.05% to 1.07%. The 10-year government bond yield (futures) rose from 1.60% to 1.62%. Markets have pushed back their expectations for the first Reserve Bank cash rate increase, based on interbank cash rate futures. The market now expects the first cash rate increase to occur in September 2022, from August 2022 yesterday. However, the probability of a cash rate increase by August 2022 remains high, at 93%.

Foreign Exchange: The US dollar strengthened against a basket of major currencies. The USD Index rose from a low of 96.13 to a high of 96.43, before consolidating to 96.29.

The AUD/USD pair recovered after falling to a 13-month low of 0.6993 on Friday night. The pair rose from a 0.6995 to a high of 0.7054, before falling back towards 0.7047 at the time of writing.

Commodities: Oil was higher after Saudi Arabia increased its prices. Gold fell as risk sentiment improved. Base metal prices were under pressure as concerns around the Omicron variant weighed on markets, despite efforts by China's central bank to increase liquidity. Copper was down, while iron ore was higher.

COVID-19: Initial data from South Africa shows that surging Omicron cases haven't so far led to a spike in hospitalisation across the country. Russia confirmed its first Omicron cases.

Queensland announced it will open its borders to fully vaccinated interstate travellers from hotspots on Monday, 13 December.

Australia: Job ads recorded a second consecutive month of solid growth in November. Job ads surged 7.4% over the month, following a revised 7.5% rise in October. The result reflects strong demand for labour, as the country's two largest cities emerged from lockdown.

Melbourne Institute annual inflation expectations

remained steady at 3.1% in November. Expectations for trimmed mean inflation dropped to 2.6% from 2.8% in October.

China: The People's Bank of China, China's central bank, reduced the reserve requirement ratio by 50 basis points, from 12% to 11.5%. The action is expected to release around US\$188 billion of liquidity into the financial system. This will support the economy as the downturn in the property market continues to pose risks for the economic outlook.

Details of restructuring plans for the embattled property developer, Evergrande, were reported. The group is reportedly planning to include all its offshore public bonds and private debt obligations in the restructuring. The restructuring could rank among China's biggest ever.

Eurozone: German factor orders were weaker than expected in October. Factory orders fell by 6.9%, following a revised 1.8% gain in September. This was weaker than consensus expectations of a 0.3% fall. In annual terms, factory orders were 1.0% lower in October. Factory orders have been volatile recently. The fall in October was led by declines of around 11% in non-EU orders. Continued supply-chain disruptions and a resurgence in COVID-19 cases contributed to the decline.

Today's key data and events:

AU ABS Dwelling Prices Q3 prev 6.7% (11:30am)
AU RBA Board Meeting (2:30pm)
Cash Rate exp 0.10% prev 0.10%
CH Trade Balance Nov exp US\$83.60bn prev US\$84.54bn
Exports Nov y/y exp 20.3% prev 27.1%
Imports Nov y/y exp 21.5% prev 20.6%
EZ Ger. Industrial Production Oct exp 0.9% prev -1.1% (6pm)
EZ GDP Q3 Final exp 2.2% prev 2.2% (9pm)
EZ Employment Q3 Final prev 0.9% (9pm)
EZ ZEW Expectations Dec prev 25.9 (9pm)
US Trade Balance Oct exp -\$66.9bn prev -\$80.9bn (12:30am)

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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