Morning Report

Thursday, 7 December 2023

Equities (close & % change)		
S&P/ASX 200	7,178	1.7%
US Dow Jones	36,054	-0.2%
Japan Nikkei	33,446	2.0%
China Shanghai	3,113	-0.1%
German DAX	16,656	0.7%
UK FTSE100	7,515	0.3%

Commodities (close & change)		
CRB Index	259.7	-6.7
Gold	2,026.66	7.3
Copper	8,269.75	-112.0
Oil (WTI futures)	69.34	-3.0
Coal (thermal)	142.00	7.5
Coal (coking)	333.00	0.7
Iron Ore	131.15	-0.5

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	4.25	-0.04
3 yr bond	3.87	-0.02
3 mth bill rate	4.34	0.00
SPI 200	7,175.0	-34

FX Last 24 hrs	Open	High	Low	Current
TWI	61.2	-	-	61.2
AUD/USD	0.6553	0.6597	0.6548	0.6550
AUD/JPY	96.47	97.18	96.35	96.53
AUD/GBP	0.5204	0.5232	0.5198	0.5217
AUD/NZD	1.0695	1.0697	1.0660	1.0671
AUD/EUR	0.6070	0.6113	0.6063	0.6087
AUD/CNH	4.6998	4.7279	4.6951	4.7000
USD Index	103.97	104.23	103.87	104.20

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	-0.02
2 year bond	3.98	-0.10
3 year bond	3.88	-0.11
3 year swap	4.05	-0.03
10 year bond	4.28	-0.13
United States		
3-month T Bill	5.24	0.03
2 year bond	4.60	0.02
10 year bond	4.12	-0.05
Other (10 year yields)		
Germany	2.20	-0.05
Japan	0.64	-0.03
UK	3.94	-0.08

Data as at 7.45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The price of oil continued to slide, with the West Texas Intermediate (WTI) futures price falling under USD70 a barrel for the first time since June this year. This weighed on US equities, which closed in the red led by energy stock. US Bond yields stabilised at the shorter end of the curve, while yields continuing to fall at the longer end. The US dollar was higher.

The Aussie was broadly unchanged, despite the softer than expected National Accounts outcome released yesterday. However, interest rate markets have now priced in one to two rate cuts next year – in stark contrast to a week ago when there were no cuts priced in for 2024.

Share Markets: The lower price of oil weighed on equities. The S&P 500 closed down 0.4%, while the tech-heavy NASDAQ fell 0.6% and the Dow Jones was 0.2% lower.

The ASX 200 jumped 1.7% yesterday, the biggest one-day gain since November 2022. Markets are betting that the Reserve Bank (RBA) is done with the current tightening cycle providing stocks a tailwind. All eleven industries finished in the green with financials outperforming. Futures are pointing to a pull-back at the open this morning.

Interest Rates: US Bond yields stabilised at the shorter end of the curve, with yields continuing to fall at the longer end. The 2-year yield increased 2 basis points to 4.60%, while the 10-year yield declined 5 basis points to 4.12%.

Interest rate markets have priced in five rate cuts for 2024, beginning May.

Aussie bond futures were lower, consistent with the softer than expected National Accounts outcome released yesterday. The 3-year (futures) yield declined by 2 basis points to 3.87%, while the 10-year (futures) yield declined by 4 basis points to 4.25%.

Interest rate markets have priced in close to 40 basis points of rate cuts next year (or between one and two 25 basis point cuts). Prior to the release of the September quarter national accounts, markets had priced in no rate cuts next year, and indeed had factored in a 25% chance of a rate hike by July 2024.

Foreign Exchange: The US dollar firmed on the back of stronger short-term yields. The DXY index rose from a low of 103.87 to a high of 104.23 and is currently trading around 104.20.

The Aussie was broadly unchanged. The AUD/USD pair increased to a high of 0.6597, before falling to a low of 0.6548. It is currently trading around 0.6550.

Commodities: The price of oil continued to slide, with the West Texas Intermediate futures price falling under USD70 a barrel for the first time since June this year. Soft demand as the global economy continues to slow are behind the recent slide, which has occurred despite shrinking US inventories.

Australia: The economic resilience displayed over the first half of 2023 ran out of puff in the September quarter. Economic activity expanded by a subdued 0.2% over the quarter to be 2.1% higher in annual terms.

This was below the record 2.4% increase in the population over the year, driving a 0.3% annual fall in GDP per capita. Population growth initially supported demand and provided a source of resilience. That now looks to be fading with the drag on incomes from headwinds including elevated inflation, higher income tax and higher interest payments weighing on spending.

Household incomes are under intense pressure. Real household disposable income fell 4.3% over the year to the September quarter – the largest fall since the 1980s!

While there was some relief from the moderation in inflation and higher earnings, it was not enough to offset a larger drag from taxes. The total tax take as a share of gross income hit a record high of 17.7% in the quarter. This was driven by bracket creep and the unwinding of low and middle income tax offset (LMITO). As a result, nominal household disposable income barely budged, despite strong growth in labour income.

Reflecting the pressure on households, consumption stalled in the September quarter. The weak number was also flattered by the ongoing catch up in vehicle deliveries. Income growth was even weaker than consumption, necessitating a further fall in the savings ratio to 1.1% – the lowest savings rate since December quarter 2007.

Business investment cooled but remained elevated. The slower investment was driven by an expected pull-back in machinery and equipment investment coinciding with the end of generous tax incentives in the June quarter. Mining investment drove the quarterly gain, while non-mining investment eased.

Measured productivity took an initial step in the right direction – rising 0.9% in the quarter. As foreshadowed, a fall in hours worked as the economy shifts gears and a catch up in the capital stock will drive a mechanical improvement in productivity growth. This process appears afoot.

Eurozone: Factory orders in Germany declined 3.7% in October, following an upwardly revised 0.7% rise in September (initial estimate was a 0.2% increase). This was much weaker than the 0.2% the market was expecting. The biggest drag came from orders for machinery and equipment, followed by fabricated metal products, basic metals, electrical equipment, and the automotive industry.

The volume of retail trade increased by 0.1% in October, breaking a three-month streak of declines. The outcome was slightly below the 0.2% the market was expecting. Sales of non-food products grew by 0.8%, with online trade also surging by 2.2% in October.

United States: Private businesses hired 103k workers in November, below a 106k hires in October. The outcome was also lower than the 130k the market was expecting. The services sector added 117k jobs, led by transportation & utilities, and education & health. The goods sector shed 14k jobs, mainly in the manufacturing and construction industries. Pay growth continued to slow, with job-stayers recording a 5.6% annual increase in pay and job-changers recording pay gains of 8.3%, the lowest since June 2021.

The trade deficit widened slightly to USD64.3 billion in October, compared to USD61.2 billion in September. This was broadly in line with market expectations. Total exports declined by 1% in October, led by gem diamonds, pharmaceutical preparations, jewellery, and passenger cars. Imports edged up 0.2%, driven by computers, drilling and oilfield equipment and travel.

The S&P Global Services PMI was confirmed at 50.8 in November, up from 50.6 in October. The reading pointed to growth in the services sector, as output and new business expanded. Customer demand also strengthened, as new business from abroad also ticked up. Finally, input cost inflation eased to the slowest in over three years.

Today's key data and events:

AU Trade Balance Oct exp $9.5bn prev $6.8bn (11:30am)

CH Exports Nov y/y (TBC)

CH Imports Nov y/y (TBC)

CH Trade Balance Nov prev US$56.53bn (TBC)

EZ Industrial Production Oct prev -1.4% (6pm)

EZ GDP Q3 Final prev -0.1% (9pm)

Times are AEST. 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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