Morning Report

Tuesday, 10 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,970	0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,605	0.6%	10 yr bond	4.44		-0.10		90 day BBSW	4.14	0.01
Japan Nikkei	30,995	-0.3%	3 yr bond	3.90		-0.06		2 year bond	3.98	-0.04
China Shanghai	3,247	-0.4%	3 mth bill rate	4.20		-0.01		3 year bond	3.95	-0.05
German DAX	15,128	-0.7%	SPI 200	7,032.0		30		3 year swap	4.13	-0.10
UK FTSE100	7,492	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.52	-0.02
Commodities (close & change)*			TWI	60.3	-	-	60.3	**United States***		
CRB Index	280.1	3.2	AUD/USD	0.6356	0.6415	0.6343	0.6411	3-month T Bill	5.35	0.00
Gold	1,861.35	28.3	AUD/JPY	94.77	95.27	94.63	95.22	2 year bond	5.08	0.00
Copper	7,985.25	147.8	AUD/GBP	0.5209	0.5242	0.5199	0.5239	10 year bond	4.80	0.00
Oil (WTI futures)	86.36	3.6	AUD/NZD	1.0655	1.0666	1.0624	1.0646	**Other (10 year yields)**		
Coal (thermal)	150.90	4.8	AUD/EUR	0.6026	0.6070	0.6014	0.6068	Germany	2.77	-0.11
Coal (coking)	352.00	-2.3	AUD/CNH	4.6466	4.6778	4.6282	4.6745	Japan	0.81	0.00
Iron Ore	110.75	-1.6	USD Index	106.30	106.60	106.02	106.09	UK	4.48	-0.10

*Bond market was closed overnight for Columbus Day.

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: Dovish comments from several Federal Reserve officials helped US equities finish the day higher and led to a slight ease in the US dollar. The US bond market was closed, but futures imply a decline in yields when markets open again. The price of oil jumped on the back of concerns that further escalation of conflict between Israel and Hamas could pose a risk to supply.

Share Markets: US equities finish the day higher, reversing falls in early trade following dovish comments from Fed officials. Energy stocks rose by 3.5% (largest one day increase in six months) alongside the surge in the price of oil. Stocks with exposure to Israel, particularly IT stocks, fell given the heightened uncertainty. The S&P 500 and the Dow Jones finished 0.6% higher, while the NASDAQ rose by 0.4%.

European markets finished in red with partial activity data released overnight pointing to continue economic weakness, particularly in Germany. The DAX finished 0.7% lower, while the Euro Stoxx 50 finished 0.8% lower.

The ASX 200 closed 0.2% higher yesterday, partly retracing the decline recorded last week. Energy stocks led the market higher, with five of eleven sectors finishing in the green. Futures are pointing to a positive open this morning.

Interest Rates: The bond market was closed overnight for Columbus Day, but futures suggest yields are set to decline when markets open on Tuesday. Future point to a 15 basis point decline in the 2-year bond yield and a 14 basis point decline in the 10-year bond yield.

Swaps traders reduced the probability of another Fed rate hike on the back of the higher longer end bond yields. The chance of a hike by the end of the year is sitting at around 25%, compared to the 50% likelihood that was priced in last Friday. A rate cut is not fully priced until July 2024. There are four full rate cuts priced in by January 2025.

Aussie bond futures were also lower. The 3-year (futures) yield declined by 6 basis points to 3.90%, while the 10-year (futures) yield declined by 10 basis points to 4.44%.

Cash rate futures imply around a 45% chance of another rate hike from the Reserve Bank (RBA) by March next year. This is down from the 60% chance priced in on Friday. Rate cuts are not yet fully priced for 2024.

Foreign Exchange: The US dollar finished lower given the lower expected bond yields and dovish comments from Fed officials. The DXY index touched a high of 106.60 before selling off to low of 106.02. The DXY is currently trading back around 106.09.

The Aussie dollar finished higher on the back of the weaker Greenback. The AUD/USD pair rose from a low of 0.6343 to a high of 0.6415. The pair is currently trading around 0.6411.

Commodities: The price of oil jumped as much as 5.4% on the back of concerns that further escalation of conflict between Israel and Hamas could pose a risk to supply. The West Texas Intermediate (WTI) price of oil reached a high of US$87.24 per barrel, before settling at around US$86.36 per barrel.

OPEC released its World Oil Outlook which forecasts that oil demand will climb 16% over the next two decades to 116 million barrels per day (b/d) in 2045, about 6 million b/d more than previously forecast. Road transportation, petrochemicals and aviation will drive growth, with the biggest gains in India and China.

Commodities were generally higher led by oil, gold and copper.

Australia: There were no major data releases yesterday.

Eurozone: The Sentix investor sentiment declined to -21.9 index points in October from -21.5 points in September. The outcome was better than the -24 points the market was expecting. The current situation index came in at -27 points, its lowest level since November 2022. On the other hand, the future expectations index improved to -16.8 from -21.0 in September - this was the highest reading since April 2023. The outcome is consistent with continued weak economic conditions.

German industrial production declined by 0.2% in August - the fourth consecutive monthly decline and follows the fall of 0.6% recorded in July. The outcome was softer than the fall of 0.1% expected by the market. The monthly decline was driven by weakness in energy production, construction, and the production of machinery and equipment. On an annual basis, industrial production declined by 2.0% in August, an acceleration from the 1.7% contraction recorded in July.

United States: Several US Federal Reserve officials spoke overnight. The consistent message was that higher longer end yields were doing some of the Fed's heavy lifting, which may reduce the need for further rate hikes, and that the labour market was coming into better balance.

Lorie Logan, president of the Federal Reserve Bank of Dallas, said the higher longer end bond yields reflect a tightening of financial conditions, which will reduce spending and the need for further hikes by the Fed. In a speech overnight she said "higher term premiums result in higher term interest rates for the same setting of the fed funds rate, all else equal. Thus, if term premiums rise, they could do some of the work of cooling the economy for us, leaving less need for additional monetary policy tightening."

Philip Jefferson, vice chair of the Fed's board, made similar comments noting that he would "remain cognizant of the tightening in financial conditions through higher bond yields and will keep that in mind as I assess the future path of policy."

Michael Barr, Fed vice chair for supervision, noted that labour market imbalances were dissipating. He said "the labour market remains tight overall, but there are elements showing supply and demand are coming into better balance, such as lower growth in average hourly earnings and a decline in the quits rate."

Today's key data and events:

AU WBC-MI Cons. Conf. Oct prev 79.7 (10:30am)

AU NAB Business Survey Sep (11:30am)

Confidence prev 2

Conditions prev 13

JN Current Account Aug prev ¥2.8tr (10:50am)

NZ Retail Card Spending Sep prev 0.7% (8:45am)

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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