Morning Report

Monday, 11 December 2023

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,195	0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	36,248	0.4%	10 yr bond	4.36		0.06		90 day BBSW	4.34	-0.01
Japan Nikkei	32,308	-1.7%	3 yr bond	3.98		0.07		2 year bond	4.00	-0.02
China Shanghai	3,113	0.1%	3 mth bill rate	4.40		0.05		3 year bond	3.90	-0.02
German DAX	16,759	0.8%	SPI 200	7,225.0		16		3 year swap	4.14	0.06
UK FTSE100	7,554	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.30	-0.04
Commodities (close & change)			TWI	60.8	-	-	60.8	**United States**		
CRB Index	262.8	2.1	AUD/USD	0.6604	0.6620	0.6558	0.6572	3-month T Bill	5.22	-0.02
Gold	2,004.67	-23.8	AUD/JPY	94.91	95.60	94.17	95.35	2 year bond	4.72	0.13
Copper	8,380.00	107.0	AUD/GBP	0.5245	0.5263	0.5230	0.5243	10 year bond	4.23	0.08
Oil (WTI futures)	71.23	1.9	AUD/NZD	1.0700	1.0754	1.0690	1.0743	**Other (10 year yields)**		
Coal (thermal)	147.70	2.4	AUD/EUR	0.6117	0.6138	0.6097	0.6112	Germany	2.28	0.09
Coal (coking)	334.00	0.0	AUD/CNH	4.7321	4.7434	4.7130	4.7200	Japan	0.77	0.01
Iron Ore	134.60	-0.9	USD Index	103.59	104.26	103.44	103.98	UK	4.04	0.07

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Stronger-than-expected labour market data from the US was the catalyst for a rise in bond yields, as the upside surprise prompted investors to reassess the aggressive rate cut profile priced in for 2024. On the other hand, in combination with other data, the surprise suggested that economic resilience remains and pointed to a stronger possibility for a soft landing for this US economy. This contributed to equities rising, despite higher bond yields. The US dollar was slightly higher against a basket of currencies while the Aussie slipped below the 0.6600 handle.

Share Markets: Equity markets were higher in Friday's session as stronger-than-expected labour market data somewhat calmed investors nerves about a hard landing leading to significant revenue downgrades. This contributed to the strong performance in equities, despite rising risk-free rates (i.e. higher discount rates). The S&P 500, Nasdaq and Dow Jones each ended 0.4% higher. For the week, the S&P 500 was up 0.2% and closed at its highest level since March 2022.

The ASX 200 finished 0.3% higher on Friday. For the week the index was up 1.7%. Most sectors finished in the green on Friday. Energy was the standout, rising 1.0%. Materials was the second strongest, up 0.6%. Only three sectors finished lower, IT, utilities, and consumer staples. Futures are pointing to a positive open today.

Interest Rates: Bond yields were higher as investors reassessed their expectations for aggressive cuts from the Fed following the stronger-than-expected labour market result. The stronger result suggests that interest rates may need to stay higher for longer to get on top of inflationary pressures. On the other hand, there was good news on the inflation expectations front as the latest consumer survey showed that short- and medium-term inflation expectations fell by more than expected. However, this wasn't enough to offset the moves following the stronger labour market data.

The 2-year yield rose 13 basis points, to 4.72%. The 10-year bond yield was 8 basis points higher, at 4.23%. Interest-rate markets continue to price aggressive cuts from the Fed in 2024, but the extent of the cuts was pulled back. Markets are currently pricing around 4.4 cuts by the end of 2024 and 5 cuts by January 2025. This compares with 5 and 5.6 cuts, respectively, a day before the release of the labour market data.

Australian bond yields broadly mimicked moves in the US. The 3-year Australian government bond yield (futures) rose 7 basis points, to 3.98%. The 10-year (futures) yield was 6 basis points higher, at 4.36%. Interest-rate markets continue to expect that the RBA is done raising rates. In 2024, markets expect a little under 1.5 cuts by the end of the year.

Foreign Exchange: The US dollar rose in line with higher interest rates. The USD Index rose from a low of 103.44 to a high of 104.26, before retracing to trade at 103.98.

The AUD/USD pair was lower against a stronger USD and fell back below the psychological 0.6600 level. The pair fell from a high of 0.6620 to a low of 0.6558, before recovering to 0.6572.

Commodities: Oil managed to recover some ground following its rapid fall over recent days. The West Texas Intermediate (WTI) futures price closed above US$70 per barrel, at US$71.23. However, the outlook remains challenging, with a weak demand outlook in China weighing on price expectations. Over the course of the week, WTI was down 4.5%.

Gold pulled back but remained above US$2,000 per ounce at the close. Iron ore was weaker, while coal and copper rose.

Australia: There were no major data releases on Friday.

China: In stark contrast to the pressures being felt across most developed economies, deflation continued as the monthly rate of inflation fell further into negative territory. The consumer price index (CPI) fell by 0.5% in the 12 months to November. This was below the annual rate in October and consensus expectations – both at a 0.2% decline. The result represented the second consecutive month of annual price falls and the fastest pace of declines in three years. The outcome adds to data suggesting that the economic recovery is patchy and that consumer spending is weak.

Separately, the producer price index (PPI) fell by 3.0% in the year to November. Like the CPI, this was also worse than expected. Consensus expectations centred on a 2.8% decline, following a 2.6% fall in the year to October. The PPI has been in negative territory for 14 consecutive months.

Japan: Economic growth was confirmed as falling into negative territory in Q3, as the final GDP print showed that the economy shrank by 0.7% in the quarter. This was below the previous estimate of a 0.5% decline. Private consumption (-0.2%) and business investment (-0.4%) both contracted in the quarter and were a drag on growth. The external trade sector and the change in inventories also both added to the drag on growth in the quarter. While real GDP was negative, nominal GDP was flat, as prices rose.

The current account surplus narrowed in October, but by less than expected. The current account surplus printed at ¥2.6 trillion, compared to ¥2.7 trillion in September. This was above expectations, which centred on a ¥1.7 trillion outcome.

United States: Jobs growth was stronger than expected in November. The non-farm payrolls change came in at 199k, above census estimates for 185k. The result followed 150k jobs being added in October. The private sector drove most of the gain – adding 150k jobs in the month. However, this was slightly below the 159k expected by consensus and the previous month's result was revised lower to 85k, from an initial reading of 99k.

The unemployment rate fell to 3.7% in November, from 3.9% in October. This was below expectations, which centred on an unchanged reading of 3.9%.

More people were drawn into the labour force, as the participation rate rose to 62.8%, from 62.7%. This is the equal highest level – along with August and September – since the pandemic began. However, the participation rate remains below its pre-pandemic rate of 63.3%.

Average hourly earnings were 0.4% higher in November, following a 0.2% increase in October. The November result was slightly above expectations of 0.3%. In annual terms, hourly earnings rose 4.0% in November – in line with the October annual result and the expected outcome.

The latest labour market data continues to paint a similar picture to other data of late. That is one of a still tight labour market that continues to slow gradually. This adds to evidence that the US may be able to achieve that fabled soft landing as inflation continues to gradually come back to target.

Consumer sentiment, as measured by the University of Michigan, jumped in December. Sentiment rose to 69.4, from 61.3 in November. This was above expectations of 62.0. This was the highest reading since July. Views on current economic conditions rose to 74.0, from 68.3, and views on expectations jumped to 66.4, from 56.8.

Encouragingly for the Fed, consumer short- and medium-term inflation expectations both declined. The 1-year expected rate of inflation fell sharply to 3.1%, from 4.5%. The more closely watched 5-10 year ahead measure, which provides a view of medium-term inflation expectations, fell to 2.8%, from 3.2% in November. Both measures were below consensus expectations of 4.3% and 3.1%, respectively.

Consumer credit expanded by $5.1 billion in October. This was down from the $12.2 billion outcome in September and below expectations of $8.5 billion. The outcome reflected more moderate growth in both revolving credit (such as credit cards) and non-revolving credit (such as car and student loans).

Today's key data and events:

UK Rightmove House Prices Dec prev -1.7%

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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