Morning Report

Tuesday, 17 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,027	-0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,985	0.9%	10 yr bond	4.54		0.06		90 day BBSW	4.15	0.00
Japan Nikkei	31,659	-2.0%	3 yr bond	4.02		0.06		2 year bond	4.04	0.01
China Shanghai	3,223	-0.5%	3 mth bill rate	4.22		0.00		3 year bond	3.95	0.01
German DAX	15,238	0.3%	SPI 200	7,095.0		48		3 year swap	4.18	0.04
UK FTSE100	7,631	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.46	-0.01
Commodities (close & change)			TWI	59.8	-	-	59.8	**United States**		
CRB Index	282.4	-1.6	AUD/USD	0.6303	0.6345	0.6301	0.6342	3-month T Bill	5.33	-0.01
Gold	1,919.81	-13.0	AUD/JPY	94.14	94.91	94.13	94.83	2 year bond	5.10	0.05
Copper	7,877.50	-41.8	AUD/GBP	0.5193	0.5209	0.5185	0.5191	10 year bond	4.70	0.09
Oil (WTI futures)	87.05	-0.6	AUD/NZD	1.0652	1.0708	1.0649	1.0698	**Other (10 year yields)**		
Coal (thermal)	151.10	0.3	AUD/EUR	0.5997	0.6014	0.5988	0.6006	Germany	2.79	0.05
Coal (coking)	325.50	-14.5	AUD/CNH	4.6095	4.6374	4.6071	4.6349	Japan	0.76	0.00
Iron Ore	116.45	-0.7	USD Index	106.56	106.63	106.18	106.21	UK	4.48	0.09

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: Risk sentiment improved as diplomatic efforts grew to help contain the impacts of the Israel-Hamas war and the situation didn't appear to escalate further overnight. However, the situation remains incredibly fluid and uncertain as Iran warned about a potential escalation of the conflict. There was no major economic data to help drive market direction.

Equity markets rose amid the improved risk sentiment. Bond yields were also higher as safe-haven demand for US bond lessened. The US dollar declined against a basket of major currencies in line with less safe-haven demand.

Share Markets: Equity markets were higher amid improved risk sentiment. The S&P 500 gained 1.1%, the Nasdaq rose 1.2%, and the Dow Jones was 0.9% higher.

The ASX 200 lost 0.3% yesterday. Eight of 11 sectors were in the red. IT was the worst performer, dropping 2.8% during the session. Futures are pointing to a positive open, taking the lead from US markets.

Interest Rates: Interest rates were higher amid a lack of escalation in the Middle East and reduced safe-haven demand for bonds. The US 2-year treasury yield rose 5 basis points, to 5.10%. The 10-year yield was 9 basis points higher, at 4.70%.

Interest-rate markets are pricing around a 40% chance of one more rate hike from the Fed by early 2024. A little under three cuts are currently priced out to January 2025.

Australian government bond yields broadly mimicked moves in the US. The 3-year and 10-year government bond yield (futures) both rose 6 basis points, to 4.02% and 4.54%, respectively. Interest rate markets have a slightly more than 40% chance of another hike from the RBA by the middle of next year. Only around a 14% chance of a cut is priced by the end of 2024.

Foreign Exchange: The US dollar declined amid reduced safe-haven flows, which contributed to a rising Aussie. The USD Index slipped from a high of 106.63 to a low of 106.18, before rebounding slightly to 106.21.

The AUD/USD pair was higher, but the Aussie remains under pressure and near the bottom of its recent range. The pair rose from a low of 0.6301 to a high of 0.6345. It was trading at 0.6342 at the time of writing.

Commodities: Oil declined and gave back some of the strong gains from Friday last week as tensions in the Middle East didn't escalate further. Gold dropped overnight after a surge at the end of last week on safe-haven demand amid geopolitical concerns. Copper, coking coal, and iron ore were also weaker. Thermal coal rose.

Australia: Brad Jones, Assistant Governor (Financial System) from the Reserve Bank (RBA) gave a speech discussing some of the potential future uses of tokenised assets and money in the Australian financial system. He spoke about the evolution of commercial and monetary arrangements; potential opportunities and challenges of tokenised assets and money; and the work the RBA is doing on the 'future of money'.

Eurozone: The trade balance surged to an €11.9 billion surplus in August, up from a €3.5 billion surplus in July. The outcome reflected rise in exports, to €236.0 billion in the month, from €232.3 billion in July. Exports slipped to €224.1 billion, from €228.8 billion in the prior month.

China: Authorities left the 1-year lending facility rate unchanged at 2.50% for a second consecutive month. The result was in line with consensus expectations, with all but one of the 12 economists surveyed by Bloomberg expecting the rate to stay on hold.

Israel-Hamas: Diplomatic efforts to prevent an expansion of the war continued and helped to calm investor nerves regarding the potential for a deterioration and expansion of the conflict. US Secretary of State Antony Blinken met with Israeli Prime Minister Benjamin Netanyahu and with Israel's Defence Secretary, Yoav Gallant. US President Biden is considering a trip to Israel to help contain the war, as is German Chancellor Olaf Scholz. Israel's currency, the shekel, plunged to its lowest levels in eight years as the fallout from the war continues to impact demand for the currency. Last week, the Israeli central bank intervened to support the currency. However, tensions may rise further as Iran warned regarding a potential expansion of the war.

Japan: The final estimate for industrial production in August was revised lower to -0.7% in the month, from the initial estimate of a flat outcome. The decline in August resulted in the annual figure slipping to -4.4% through the year to August, down from the initially reported -3.8% decline.

New Zealand: The performance of services index moved back into positive territory for the first time in four months. This indicates that services sector activity expanded in the month. The index rose from 47.7 in August to 50.7 in September. Three of the five sub-indices were in positive territory. New orders, activity/sales, and employment were all above 50. Supplier deliveries and inventories were in contraction. The index has been trending lower for over 12 months as the Reserve Bank of New Zealand aggressively tightened monetary policy to reduce inflationary pressures. While the move above 50 provides signs of some resilience in the services sector, the index remains below its long-run average and further readings will be needed to ascertain whether the downtrend in activity resumes.

United Kingdom: House prices rose 0.5% in October, accelerating from the 0.4% pace in September. However, prices were still down on levels from a year ago. In annual terms, prices fell 0.8% over the 12 months to October. This followed an 0.4% annual decline in September. The average property asking price across the UK now stands at £368,231, while prices in London jumped by 2.1% in the month, to £687,401.

United States: The NY Fed Empire Manufacturing survey slipped back into negative territory in October, after a brief move above zero in September. The index fell to -4.6 in October, from 1.9 in the prior month. The result was above consensus expectations of -6.0 and continues the run of volatile month-to-month readings for this measure. Prices paid remained elevated at 25.5 in the month, while prices received slipped to 11.7, from 19.6 – suggesting that some manufacturers may be finding it difficult to pass on price increases. New orders slipped into negative territory, at -4.2, from 5.1. Shipments pulled back in the month but remained in expansionary territory. Employment rose and moved from contraction to expansion. The outlook for conditions over the next six months remained buoyant, at 23.1, but pulled back from the 26.3 reading last month.

Philadelphia Federal Reserve Bank President Patrick Harker discussed the resilience of the US economy and the better-than-expected adjustment to higher interest rates. This emphasised the importance of maintaining a restrictive policy stance to reduce inflationary pressures over time. He echoed other Fed speakers in expecting interest rates to remain "higher for longer" unless there were a significant deterioration in economic conditions.

Today's key data and events:

AU RBA Board Meeting Minutes (11:30am)

EU ZEW Expectations Oct prev -8.9 (8pm)

NZ CPI Q3 exp 1.9% prev 1.1% (8:45am)

UK ILO Unemployment Rate Aug prev 4.3% (5pm)

US Retail Sales Sep exp 0.3% prev 0.6% (11:30pm)

US Industrial Production Sep exp 0.0% prev 0.4% (12:15am)

US Business Inventories Aug exp 0.3% prev 0.0% (1am)

US NAHB Housing Market Index Oct exp 44 prev 45 (1am)

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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