Morning Report

Friday, 27 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,812	-0.6%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,784	-0.8%	10 yr bond	4.81		-0.08		90 day BBSW	4.33	0.09
Japan Nikkei	30,602	-2.1%	3 yr bond	4.31		-0.05		2 year bond	4.40	0.06
China Shanghai	3,133	0.5%	3 mth bill rate	4.37		-0.02		3 year bond	4.33	0.09
German DAX	14,731	-1.1%	SPI 200	6,810.0		-3		3 year swap	4.49	-0.02
UK FTSE100	7,355	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.87	0.15
Commodities (close & change)			TWI	60.5	-	-	60.5	**United States**		
CRB Index	281.5	-1.6	AUD/USD	0.6309	0.6331	0.6270	0.6321	3-month T Bill	5.31	-0.01
Gold	1,984.90	5.2	AUD/JPY	94.78	95.21	94.25	95.08	2 year bond	5.04	-0.08
Copper	7,991.00	-27.5	AUD/GBP	0.5209	0.5226	0.5191	0.5212	10 year bond	4.84	-0.11
Oil (WTI futures)	83.63	-1.8	AUD/NZD	1.0873	1.0878	1.0848	1.0862	**Other (10 year yields)**		
Coal (thermal)	137.70	1.7	AUD/EUR	0.5970	0.5999	0.5945	0.5986	Germany	2.86	-0.03
Coal (coking)	336.50	16.5	AUD/CNH	4.6241	4.6365	4.5968	4.6293	Japan	0.88	0.02
Iron Ore	116.70	-0.3	USD Index	106.56	106.89	106.52	106.64	UK	4.60	-0.01

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: US stocks dropped as disappointing Big Tech earnings report led the market lower. This was despite stronger than expected economic data coming out of the US. US bond yields fell across the curve. The price of oil declined by almost 2%, retracting most of yesterday's increase. The US dollar index was broadly unchanged, with the Aussie recovering after reaching its lowest level since October 2022.

Share Markets: The strong economic data coming out of the US was not enough to offset the drag on stocks from the big tech sector. Third-quarter results from tech giants, which included subdued expectations on future earnings, failed to impress investors, sending stocks lower. The S&P 500 tumbled 1.2% falling to its lowest since May. The Dow Jones lost 0.8%, while the tech-heavy NASDAQ dropped sharply losing 1.8% (this comes on the back of a 2.4% decline yesterday, the weakest session since February).

The ASX 200 declined for the second day, dropping 0.6% to the lowest closing level since October 2022. Financials stocks led the market lower, with nine of eleven sectors closing in the red. Futures are pointing to a weak open this morning.

Interest Rates: US Treasuries yields fell across the curve, partly retracing some of the gains recorded in yesterday's trade. The 2-year yield finished 8 basis points lower at 5.04%, while the 10-year yield was 11 basis points lower at 4.84%.

Interest rate markets are pricing around a 30% chance of another hike by January next year. Rate cuts are fully priced for July.

Aussie bond futures followed the lead from the US. The 10-year (futures) yield declined by 8 basis points to 4.81%. The 3-year (futures) yield declined by 5 basis points to 4.31%.

Interest rate markets are pricing around a 45% chance of hike when the Reserve Bank meets in November. Markets have fully priced in a hike by February 2024.

Foreign Exchange: The US dollar finished broadly unchanged in a volatile session. The DXY traded within a tight interval (106.52 to 106.89) to finish at 106.64.

The Aussie dollar was higher. The AUD/USD pair initially decline falling to its lowest level since October 2022 during the Asian session at 0.6270. The pair then rebounded during American trading hours despite upbeat US economic data. The pair climbed back above 0.6300. The rebound in AUD/USD was driven by some weakness in the US Dollar. The pair is currently trading at around 0.6321.

Commodities: Energy commodities continue to fluctuate on news flow out of the Middle East. The West Texas Intermediate (WTI) price of oil declined to US$83.36 per barrel.

Australia: Export prices declined by 3.1% over the September quarter, to be 10.7% lower in annual terms. The prices of rural exports declined by 7.1% over the September quarter to be 16.8% lower in annual terms – the largest decline since the 2009.

Import prices increased by 0.8% over the September quarter but was 2.4% lower in annual terms. Petroleum was the key driver of the rise in import prices. The price of both imported capital and consumption goods were flat in the September quarter despite a weaker Australian dollar.

Eurozone: The European Central Bank (ECB) left interest rates unchanged for the first time in more than a year. The deposit rate remained at 4.0%. The ECB reiterated that holding borrowing costs at that level for long enough will make a "substantial contribution" to bringing inflation back to the 2% target. ECB President Christine Lagarde said "we have to be steady... Having a discussion on cuts is totally, totally premature," She also said "the fact that we are holding doesn't mean to say that we will never hike again."

United States: Activity in the US economy accelerated over the September quarter 2023. The economy expanded at an annualized rate of 4.9% over the quarter. This was the quickest pace since the December quarter 2021 and above the 4.5% growth rate the market was expecting. Consumer spending outperformed, increasing by 4% over the quarter. This was led by consumption of housing and utilities, health care, financial services and insurance and food services and accommodations. Exports soared by 6.2% over the quarter and residential investment rose for the first time in nearly two years.

At the same time, underlying inflationary pressures continued to show signs of easing. The closely watched core personal consumption expenditures (PCE) price index, which strips out food and energy costs, stepped down to a 2.4% pace in the September quarter. This was slightly below the 2.5% the market was expecting and well below the 3.7% recorded in the previous quarter.

Services component of the PCE index, excluding housing and energy, a narrower measure watched closely by Fed officials, rose at an annualised 3.6% rate, broadly in line with the 3.5% recorded in the previous quarter, but well below the above 5% rate recorded in the March quarter.

New orders for manufactured durable goods in the surged by 4.7% over the month of September, rebounding from a 0.1% contraction in August and significantly above the 1.8% the market was expecting. The strong outcome was primarily driven by strong demand for transportation equipment.

Pending Home Sales increase by 1.1% over the month of September. This was much higher than the fall of 2.1% the market was expecting. Compared to a year ago, pending home sales are down by 11% on the back of elevated mortgage rates.

The Kansas City Fed's Manufacturing composite index was -8 in October, unchanged from September and down from 0 in August. Durable goods manufacturing declined more than nondurable goods, but both sectors declined at the same pace as the previous month.

Treasury Secretary Janet Yellen attributed the rise in US yields to an economy that's "doing very well" and expectations that rates "are likely to stay higher for longer." The dismissed the idea that deficit concerns were helping fuel yield gains.

Today's key data and events:

AU PPI Q3 prev 0.5% (11:30am)
CH Industrial Profits Sep y/y prev 17.2% (12:30pm)
NZ ANZ Consumer Confidence Oct (8am)
UK Nationwide House Prices Oct (28 Oct – 4 Nov)
US Personal Income Sep (11:30pm)
US Personal Spending Sep (11:30pm)
US PCE Core Sep (11:30pm)
US UoM Consumer Sentiment Oct Final (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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