Morning Report

Thursday, 30 November 2023

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,035	0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,430	0.0%	10 yr bond	4.36		-0.02		90 day BBSW	4.39	0.01
Japan Nikkei	33,321	-0.3%	3 yr bond	3.98		-0.04		2 year bond	4.10	-0.13
China Shanghai	3,168	-0.6%	3 mth bill rate	4.38		0.01		3 year bond	4.01	-0.15
German DAX	16,166	1.1%	SPI 200	7,059.0		5		3 year swap	4.20	-0.11
UK FTSE100	7,423	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.36	-0.14
Commodities (close & change)			TWI	61.5	-	-	61.5	**United States**		
CRB Index	275.4	1.8	AUD/USD	0.6644	0.6676	0.6606	0.6614	3-month T Bill	5.24	-0.02
Gold	2,044.17	3.2	AUD/JPY	98.00	98.11	97.34	97.43	2 year bond	4.64	-0.09
Copper	8,415.50	123.0	AUD/GBP	0.5235	0.5244	0.5209	0.5211	10 year bond	4.26	-0.06
Oil (WTI futures)	77.75	1.3	AUD/NZD	1.0839	1.0840	1.0723	1.0752	**Other (10 year yields)**		
Coal (thermal)	130.80	-1.2	AUD/EUR	0.6048	0.6060	0.6022	0.6028	Germany	2.43	-0.06
Coal (coking)	329.00	2.0	AUD/CNH	4.7413	4.7503	4.7189	4.7253	Japan	0.67	-0.09
Iron Ore	127.55	-1.0	USD Index	102.78	103.01	102.47	102.86	UK	4.10	-0.08

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: The bond rally continued overnight as bond prices rose (resulting in falling bond yields). The moves followed increasing expectations that the Fed is done hiking rates and a bringing forward of views on when cuts may be on the horizon. Stock markets ended mixed on the day. The US dollar was slightly higher despite falling bond yields and the Aussie slipped from a four-month high.

Share Markets: Equity markets ran out of steam during the session and ended mixed on the day. The S&P 500 lost 0.1%, the Nasdaq was 0.2% lower, while the Dow Jones finished up, but by less than 0.1%.

The ASX 200 finished 0.3% higher yesterday. Six sectors were higher, led by IT, health care, and consumer discretionary, which all finished more than 1% higher. Five sectors were lower on the day. Energy was the worst performer, down 0.8%. Futures are pointing to a positive open today.

Interest Rates: Bond yields continued their declines over recent sessions as expectations around when the Fed may be able to cut rates continue to be brought forward and the number of cuts priced continues to be increased.

The US 2-year treasury yield fell 9 basis points, to 4.64%. This was the lowest close since mid-July. The 2-year yield has fallen from a peak of 5.26% in around a month and a half. The 10-year yield was 6 basis points lower, at 4.26% – its lowest close since mid-September. The 10-year yield is down from a peak of 5.02% in mid-October.

Interest-rate markets are pricing almost 4.7 cuts from the Fed through 2024, with the first cut fully priced by May. This compares to around 4.1 cuts a day earlier and a first cut being fully priced by June.

Australian government bond yields (futures) followed moves in the US, but to a lesser degree. The 3-year (futures) yield lost 4 basis points, to 3.98%. The 10-year (futures) yield was 2 basis points lower, at 4.36%. Interest-rate markets are pricing around a 24% chance of another hike from the RBA by mid-2024. This is down from around 62% earlier in the week and comes on the back of a weaker-than-expected inflation outcome for October.

Foreign Exchange: The US dollar paused its recent decline and stabilised despite the falls in bond yields. The USD Index traded between a low of 102.47 and a high of 103.01. It closed at 102.86, not far from its open.

The AUD/USD lost ground overnight. It fell from a four-month high of 0.6676 to a low of 0.6606 – staying above the key 0.6600 level. It was trading at 0.6614 at the time of writing.

Commodities: Oil rose overnight, as did copper, gold and coking coal. Iron ore and thermal coal were lower.

Australia: The disinflationary process continued in

October as the monthly inflation indicator showed that prices grew 4.9% in annual terms. This was down from 5.6% in September. Headline inflation fell to its lowest since January 2022.

Excluding volatile items (such as food and petrol) & holiday travel, prices rose 5.0% in the year in seasonally adjusted terms, from 5.4% last month. However, there was less progress on core inflation, as the annual trimmed mean slowed to 5.3%, from 5.4%.

Goods disinflation continued as the easing of supply-chain disruptions and commodity prices around the world gradually flows through into final consumer prices. Annual goods inflation was 4.6% in October, down significantly from 5.7% in September.

The Reserve Bank (RBA) is closely monitoring domestic inflationary pressures, particularly for services. Governor Bullock repeatedly referenced the risk that services inflation remains sticky. Unfortunately, most services prices are not recorded in the first month of each quarter, so we don't receive a great update here.

For some services, government policy is having a big impact. Rents fell 0.4% in monthly terms, to an annual pace of 6.6%. However, this is due to higher rates of rental assistance payments, which began on 20 September. Rents would have instead risen 0.7% in the month and 8.3% in the year if it wasn't for government policy support.

The RBA will welcome continued disinflation and we expect rates to be on hold in December. The challenge remains in services. We need to wait for additional data to get a better idea of how inflationary pressures are evolving across those categories.

Construction work done rose 1.3% in the September quarter. This was above consensus expectations for a 0.3% gain. The result follows growth of 2.0% in the June quarter, which was revised higher from an initially reported 0.4% gain.

The quarterly rise was led by public work, which jumped a solid 4.2%. Public engineering work was the main catalyst as a solid pipeline of infrastructure projects, such as transport infrastructure, supports activity in this category.

Private construction work grew in the quarter but was more subdued. Private building was 0.1% higher while private engineering work grew 0.2%.

New Zealand: The Reserve Bank of New Zealand (RBNZ) left its policy rate unchanged at 5.50%, as was widely expected. However, while the decision was as expected, the RBNZ surprised markets by indicating that further hikes or a longer period with rates on hold will be needed to control inflationary pressures. The projections for the cash rate were revised higher compared to August. The RBNZ now expects the cash rate to remain unchanged until the second quarter of 2025, when it expects that rates can begin to be cut. This compares with the first quarter of 2025 in its August projections. The RBNZ remains concerned about inflation, particularly core inflation, which is not slowing as quickly as expected.

Eurozone: Economic confidence rose slightly in November. Confidence rose to 93.8, from 93.5 in October. This was above consensus expectations of 93.6. Confidence has now lifted for two consecutive months, from the 2023 low of 93.4 in September.

Consumer confidence was finalised at -16.9 in November, unchanged from its initial reading.

Prices in Germany declined by 0.4% in November, taking the annual pace of inflation to 3.2%. This was lower than consensus expectations, which centred on a 3.5% outcome and followed a prior 3.8% reading. On an EU harmonised basis, inflation slowed to 2.3%, from 3.0%. This provides important information ahead of eurozone CPI, which will be published tonight.

United States: The second estimate of GDP growth in Q3 was revised higher. GDP growth was revised up to 5.2%, from 4.9% previously. This compares with an expected outcome of 5.0%. Looking at the components, the revisions were driven by an upgrade to government consumption and investment. However, personal consumption was revised lower, to 3.6%, from an initial reading of 4.0%.

The second estimate of the Q3 core personal consumption expenditures deflator came in at 2.3% compared to an initially reported 2.4%.

Richmond Fed President Thomas Barkin noted that the Fed would "want to have the option of doing more" on interest rates if inflation proves to be sticky. He mentioned that there remains a lot of uncertainty and that he wouldn't be prepared to commit to a specific path for policy.

In contrast, Cleveland Fed President Loretta Mester noted that current policy was in a "good place" and that it enabled the Fed to be "nimble" with incoming data. She also signalled that she would support a hold decision at the next meeting.

Atlanta Fed President Raphael Bostic expects growth and inflation to continue to slow as tight monetary policy works its way through the system. He noted that comments from businesses point to "ongoing disinflation and a measured slowing in economy activity." However, he noted that the slowing in activity is not so rapid as to signal a recession.

Today's key data and events:

NZ Building Permits Oct prev –4.7% (8:45am)

JP Industrial Production Oct exp 0.4% prev -4.4% (10:50am)

NZ ANZ Business Confidence Nov prev 23.4 (11:00am)

AU Private Sector Credit Oct exp 0.4% prev 0.5% (11:30am)

AU Private Capital Expenditure Q3 exp -0.6% prev 2.8% (11:30am)

AU Building Approvals Oct exp 1.0% prev -4.6% (11:30am)

CH NBS Mfg PMI Nov exp 49.8 prev 49.5 (12:30pm)

CH NBS Non-Mfg PMI Nov exp 50.9 prev 50.6 (12:30pm)

EU Eur. CPI Nov y/y exp 2.7% prev 2.9% (9:00pm)

EU Unemployment Rate Oct exp 6.5% prev 6.5% (9:00pm)

US Personal Income Oct exp 0.2% prev 0.3% (12:30am)

US Personal Spending Oct exp 0.2% prev 0.7% (12:30am)

US PCE Deflator Oct exp 0.1% prev 0.4% (12:30am)

US Chicago PMI Nov exp 46.0 prev 44.0 (1:45am)

US Pending Home Sales Oct exp -2.0% prev 1.1% (2:00am)

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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