

Morning Report

Thursday, 16 November 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,106	1.4%			Last	Overnight Chg		Australia		
US Dow Jones	35,001	0.5%	10 yr bond	4.60			0.06	90 day BBSW	4.40	-0.01
Japan Nikkei	33,520	2.5%	3 yr bond	4.22			0.04	2 year bond	4.24	-0.11
China Shanghai	3,222	0.5%	3 mth bill rate	4.41			0.01	3 year bond	4.17	-0.11
German DAX	15,748	0.9%	SPI 200	7,122.0			-10	3 year swap	4.42	0.01
UK FTSE100	7,487	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.53	-0.13
Commodities (close & change)			TWI	60.3	-	-	60.3	United States		
CRB Index	276.8	-0.6	AUD/USD	0.6508	0.6542	0.6483	0.6506	3-month T Bill	5.25	0.01
Gold	1,959.57	-4.7	AUD/JPY	97.78	98.59	97.65	98.50	2 year bond	4.92	0.08
Copper	8,218.00	27.0	AUD/GBP	0.5206	0.5251	0.5195	0.5243	10 year bond	4.54	0.09
Oil (WTI futures)	76.58	-1.7	AUD/NZD	1.0829	1.0837	1.0774	1.0805	Other (10 year yields)		
Coal (thermal)	130.00	0.8	AUD/EUR	0.5981	0.6011	0.5966	0.6000	Germany	2.64	0.04
Coal (coking)	310.00	3.5	AUD/CNH	4.7185	4.7378	4.7054	4.7230	Japan	0.80	-0.06
Iron Ore	128.10	-1.9	USD Index	104.03	104.51	103.98	104.42	UK	4.23	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: Encouraging inflation and retailing data strengthened expectations that the Fed is done hiking rates and boosted optimism of a soft landing. US equities continued a modest rally. Treasury yields rose across the curve, halting a sharp slide as investors pared expectations for sharp rate cuts. The US dollar firmed, and oil slid on reports that inventories are expending.

Share Markets: The S&P 500 rose 0.2% overnight, while the Dow Jones and the NASDAQ finished up 0.5% and 0.1%, respectively. The S&P 500 is now up almost 10% from its October 27 low.

The ASX 200 jumped 1.4% yesterday in its best session in four months. Futures are pointing to a softer open this morning.

Interest Rates: US treasury yields rose across the curve as traders headed guidance from the Fed that rate cuts are still some way off. The 2-year yield rose 8 basis points to 4.92%, while the 10-year yield climbed 9 basis points to 4.54%.

Interest rate market pricing implies close to zero chance of another hike from the Fed. Three rate cuts are priced into the curve next year, starting June. Yesterday, almost four cuts were priced in.

Aussie bond futures also sold off. The 3-year (futures) yield rose 4 basis points to 4.22%, while the 10-year yield gained 6 basis points to 4.60%.

Interest rate markets are pricing a near 40% chance of another hike from the RBA by the middle of

2024. Rate cuts are not yet fully priced for 2024.

Foreign Exchange: The Aussie dollar traded sideways, consolidating its rise above the 0.6500 level. The AUD/USD pair traded between a low of 0.6483 and a high of 0.6542 but failed to hold onto any moves above key resistance sitting around the 0.6520 level. Yesterday's local wages data did little to spur the Aussie in Asian trade, labour force data today could provide some direction.

The US dollar rose against a basket of major currencies. The DXY rose from a low of 103.98 to a high of 104.51 and is currently trading at 104.42.

Commodities: A report from the International Energy Agency (IEA) showed that crude inventories rose for a fourth straight week, prompting a sell off in oil futures. The West Texas Intermediate (WTI) price of oil fell to US\$76.52 per barrel.

Australia: The Wage Price Index (WPI) increased 1.3% over the September quarter to be 4.0% higher in annual terms. The quarterly increase was the largest on record. Fair Work Commission (FWC) decisions boosted the level of award wages and wages in the aged care sector.

Once the FWC related spike drops out, we should see significant deceleration in the quarterly growth rate. One sign of this is that since the end of September, wages growth approved in enterprise bargaining agreements are back to around 3.5%.

We expect the September quarter was the peak for

wages growth. The outcome is consistent with the RBA's forecasts of 4.0% growth over 2023 – without the FWC-tied increases, we expect wages growth to decelerate in the December quarter to be around 0.8%, keeping the annual number unchanged.

China: Industrial production rose 4.6% over the year to October, accelerating marginally on the 4.5% annual increase in September. The result was slightly stronger than expectations which were centred on an unchanged result.

Retail sales jumped 7.6% in October in annual terms, topping expectations for a 7.0% gain.

Much of the strength on yesterday's data represents base effects as the annual growth rates compare current levels to those in October last year when the economy was still being strangled by harsh COVID restrictions. Looking at the underlying momentum, activity in both retailing and industrial production appear soft.

New Zealand: Retail card spending fell 0.7% in October following a 0.8% decline in September. Retail card spending has now fallen in four of the past six months as higher interest rates put pressure on household budgets.

Net migration rose 7.5k in September following an revised 12.4k increase in August. This was the weakest pace of net migration since January.

Eurozone: Industrial production printed at -1.1% in September. This followed a 0.6% gain in August and was broadly in line with expectations. Industrial production remains subdued as businesses grapple with cost pressures and global demand slows.

The trade surplus narrowed to €9.2bn in September from €11.1bn in August.

Japan: GDP fell at an annualised rate of 2.1% in the September quarter, missing expectations for a more mild 0.4% decline. This followed a 4.5% annualised increase in the June quarter. The weak result underscores that the economic recovery remains fragile and bolsters the case for the Bank of Japan to maintain accommodative policy settings.

United Kingdom: The consumer price index (CPI) was flat in October. This pushed annual headline inflation down to 4.6% from 6.7% previously. Core inflation, which excludes food and energy, also decelerated in annual terms, dropping to 5.7% from 6.1% in September.

United States: San Francisco Fed boss, Mary Daly, warned against declaring victory on inflation too early, suggesting that falsely calling a premature triumph would dent the Fed's credibility. Still, Daly

noted that the recent data was "very, very encouraging" but added that rate cuts are "not happening for a while".

Retail sales fared better than expected in October declining 0.1% in the month. September's reading of 0.7% was revised up to 0.9%. The control group, which feeds into the personal consumption expenditure measure gained 0.2%, as expected. The data suggests that only a modest slowing in consumption is underway.

The producer price index (PPI) unexpectedly fell in October, largely due to falling fuel prices. The PPI declined 0.5% in the month, the largest monthly fall since April 2020. This followed a revised 0.4% rise in September. In annual terms, the PPI rose 1.3%, down from 2.2% in September. Excluding food and energy prices, the PPI was flat in October and 2.4% higher in annual terms. The result points to further inflation progress in the pipeline as easing cost pressures for businesses flow into consumer prices.

The New York Fed Empire manufacturing survey printed at 9.1 in November, up sharply from -4.6 in October. The result was considerably stronger than consensus expectations which centred on -3.0.

Business inventories rose 0.4% in September, as expected. This followed a 0.4% gain in August.

Today's key data and events:

JN Machinery Orders Sep exp 0.9% prev -0.5% (10:50am)
 AU MI Cons. Inflation Expectations Nov prev 4.8% (11am)
 AU Labour Force Survey Oct (11:30am)
 Employment Change exp 25k prev 6.7k
 Unemployment Rate exp 3.6% prev 3.6%
 Participation Rate exp 66.8% prev 66.7%
 US Import Price Index Oct exp -0.3% prev 0.1% (12:30am)
 US Export Price Index Oct exp -0.5% prev 0.7% (12:30am)
 US Philadelphia Fed Index Nov exp -8.3 prev -9.0 (12:30am)
 US Indust. Production Oct exp -0.4% prev 0.3% (1:15am)
 US NAHB Housing Market Index Nov exp 40 prev 40 (2am)
 US Kansas City Fed Index Nov prev -8 (3am)

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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