Morning Report

Friday, 8 December 2023

Equities (close & % change)		
S&P/ASX 200	7,173	-0.1%
US Dow Jones	36,117	0.2%
Japan Nikkei	32,858	-1.8%
China Shanghai	3,110	-0.1%
German DAX	16,629	-0.2%
UK FTSE100	7,514	0.0%
Commodities (close & change)		
CRB Index	260.7	1.1
Gold	2,028.88	3.3
Copper	8,219.75	-50.0
Oil (WTI futures)	69.66	0.3
Coal (thermal)	149.25	7.3
Coal (coking)	334.00	1.0
Iron Ore	134.75	0.8

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	4.29	-0.06
3 yr bond	3.89	-0.04
3 mth bill rate	4.36	0.00
SPI 200	7,170.0	-15

FX Last 24 hrs	Open	High	Low	Current
TWI	61.2	-	-	61.2
AUD/USD	0.6550	0.6620	0.6526	0.6604
AUD/JPY	96.53	96.57	93.73	94.91
AUD/GBP	0.5217	0.5250	0.5200	0.5245
AUD/NZD	1.0671	1.0706	1.0656	1.0700
AUD/EUR	0.6087	0.6120	0.6065	0.6118
AUD/CNH	4.7000	4.7359	4.6785	4.7325
USD Index	104.20	104.20	103.27	103.59

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	0.00
2 year bond	4.02	0.04
3 year bond	3.92	0.04
3 year swap	4.06	0.02
10 year bond	4.34	0.06
United States		
3-month T Bill	5.23	-0.02
2 year bond	4.59	-0.01
10 year bond	4.14	0.04
Other (10 year yields)		
Germany	2.19	-0.01
Japan	0.76	0.12
UK	3.97	0.02

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: Excitement over the prospects of artificial intelligence (AI) technology drove share markets higher after Google released its latest AI model – Gemini. Elsewhere, the rally in long-term bonds took a breather as investors await the release of key US jobs market data for November on Friday. The US dollar reversed some of the gains recorded over the previous three days to decline against a basket of major currencies, helping to lift the Aussie.

Share Markets: Equity markets jumped, led by mega-cap tech stocks, after Google released its latest multimodal AI model – Gemini – claiming it outperformed other models, including OpenAI, in a range of tests. The fever over the potential of AI technology drove the prices of companies most exposed to the theme higher. The Nasdaq surged 1.4% and the S&P 500 rose 0.7%. The industrial-heavy Dow Jones rose a more modest 0.2%.

The ASX 200 slipped 0.1% yesterday. Four of 11 sectors finished in the green, including utilities, materials, energy, and IT. Consumer discretionary was the worst performer, falling 0.5%. Futures are pointing to a soft open today.

Interest Rates: The rally in long-term bonds took a breather as investors await the release of non-farm payrolls data and other important information on the labour market on Friday. US 10-year bonds sold off (i.e. prices fell) and the 10-year bond yield rose 4 basis points, to 4.14%. The 2-year bond yield was broadly unchanged, down 1 basis point to 4.59%.

Interest-rate markets continue to price aggressive cuts from the Fed in 2024. Markets are currently priced for around 5 cuts (i.e. slightly over 125 basis points) by the end of 2024. By January 2025, markets are priced for 5.7 cuts.

Australian bond yield (futures) didn't follow moves in the US. The 3-year government bond yield (futures) fell 4 basis points, to 3.89%. The 10-year futures yield fell 6 basis points, to 4.29%. Interest-rate markets continue to price cuts from the RBA in 2024 and don't expect any further hikes. Markets currently price around 1.5 cuts in the cash rate by the end of 2024.

Foreign Exchange: The US dollar declined against a basket of major currencies – reversing some of the move higher over the previous three sessions. The USD Index fell from a high of 104.20 to a low of 103.27. It was trading at 103.59 at the time of writing.

A weaker US dollar supported the Aussie, which broke back above the 0.6600 handle. The AUD/USD pair rose from a low of 0.6526 to a high of 0.6620, before losing some ground to trade at 0.6604.

Commodities: The sharp sell-off in oil over the past five sessions paused overnight. However, the West Texas Intermediate (WTI) oil futures price failed to convincingly break above US$70 per barrel and closed at $69.66. The WTI price has rapidly fallen from the high $70s to just below $70 in around a week as weakening demand prospects and concerns over an oversupply of oil impact the market.

Copper was down on the day, while other commodities were higher, including gold, coal, and iron ore.

Australia: The trade surplus for goods widened to $7.1 billion in October, from a downwardly revised $6.2 billion in September (previously reported as a $6.8 billion surplus). The outcome was below consensus expectations, which centred on a $7.5 billion surplus. The result reflected an increase in goods exports and a fall in goods imports. Exports were 0.4% higher, partly rebounding from a 1.8% fall in the prior month. Looking at major non-rural commodity exports, metal ores & minerals were 2.3% higher, while coal, coke & briquettes (-4.0%) and other mineral fuels (-4.6%) both declined. The lower import bill reflected an 11.2% fall in capital goods and a 0.5% slide in consumption goods. This was partly offset by a 1.4% increase in intermediate & other merchandise goods.

China: The trade surplus widened to $68.4 billion in November, from $56.5 billion in October. This was well above consensus expectations, which centred on a $54.9 billion surplus. Exports were stronger than expected, while imports surprised to the downside. Exports rose 0.5% on an annual basis to November – the first annual rise in exports since April. This was above consensus expectations for a flat result and reflected a turnaround from a 6.4% annual fall in the prior month. Imports fell 0.6% in the year to November. This compares with a 3.0% gain in the year to October and was below consensus expectations of a 3.9% increase. The weaker-than-expected import numbers suggest that domestic demand likely underwhelmed expectations as the economic recovery continues to show a degree of volatility.

Eurozone: GDP growth in the third quarter was finalised at -0.1%. This was unchanged from the flash estimate. Annual growth was revised slightly lower, to an unchanged result from a year ago. This compares with the flash estimate, which suggested the economy grew by a meagre 0.1% in the year. Economic growth has hovered around zero for the past four quarters. Specifically, growth has contracted by 0.1% in two of the past four quarters and grown by only 0.1% in the other two quarters.

Household and government spending each grew by 0.3% in the quarter. Investment was flat, while exports and imports fell by 1.1% and 1.2%, respectively.

The numbers demonstrate the challenge the region is facing as economic growth stalls under the weight of tight monetary policy and challenging economic conditions.

German industrial production fell 0.4% in October, following a 1.3% decline in September. The outcome was below consensus expectations for a 0.2% gain. In annual terms, industrial production fell 3.5%. Looking at the sub-components, construction (-2.2%), capital goods (1.0%), manufacturing (-0.5%), and intermediate goods (-0.4%) were all weaker. Energy (7.1%) and consumer goods (0.4%) were a bright spot, rising in the month.

Today's key data and events:

CH CPI Nov y/y exp -0.2% prev -0.2% (12:30pm Sat 9 Dec)

CH PPI Nov y/y exp -2.8% prev -2.6% (12:30pm Sat 9 Dec)

EU CPI Nov Final (6pm)

JP GDP Q3 Final prev -0.5% (10:50am)

JP Current Account Oct exp ¥1.7tn prev ¥2.7tn (10:50am)

US Consumer Credit Oct exp $8.5bn prev $9.1bn (7am)

US Non-farm Payrolls Change Nov exp 185k prev 150k (12:30am)

US Unemployment Rate Nov exp 3.9% prev 3.9% (12:30am)

US Average Hourly Earnings Nov exp 0.3% prev 0.2% (12:30am)

US UoM Consumer Sentiment Dec exp 62.0 prev 61.3 (2am)

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.

Jarek Kowcza, Senior Economist

Ph: +61 481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789