Morning Report

Thursday, 12 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,088	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,805	0.2%	10 yr bond	4.36		-0.08		90 day BBSW	4.14	0.00
Japan Nikkei	31,937	0.6%	3 yr bond	3.89		-0.05		2 year bond	4.00	0.05
China Shanghai	3,228	0.1%	3 mth bill rate	4.21		0.00		3 year bond	3.94	0.01
German DAX	15,460	0.2%	SPI 200	7,124.0		6		3 year swap	4.13	-0.02
UK FTSE100	7,620	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.43	-0.03
Commodities (close & change)			TWI	60.6	-	-	60.6	**United States**		
CRB Index	277.4	-2.5	AUD/USD	0.6432	0.6445	0.6388	0.6414	3-month T Bill	5.33	0.01
Gold	1,874.36	14.0	AUD/JPY	95.65	95.73	95.37	95.67	2 year bond	4.98	0.01
Copper	7,955.00	-95.8	AUD/GBP	0.5235	0.5239	0.5203	0.5209	10 year bond	4.56	-0.09
Oil (WTI futures)	83.49	-2.5	AUD/NZD	1.0638	1.0667	1.0626	1.0654	**Other (10 year yields)**		
Coal (thermal)	151.10	-2.6	AUD/EUR	0.6065	0.6072	0.6034	0.6040	Germany	2.72	-0.06
Coal (coking)	348.50	4.0	AUD/CNH	4.6873	4.6937	4.6654	4.6831	Japan	0.77	-0.01
Iron Ore	112.25	-0.3	USD Index	105.77	106.01	105.56	105.72	UK	4.33	-0.10

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 equities rose on dovish comments from Fed officials. Longer end yields continued to decline, while shorter end yields stabilised given the stronger than expected producer price data. This led to a slight ease in the US dollar. The price of oil declined by more than 2% as Saudi Arabia pledged to help stabilise the market – this will help central banks in the fight against inflation.

Share Markets: US equities finish the day higher, as traders await the key US consumer inflation data to be released overnight. The stronger than expected producer price read had equities falling in early trade, which was reversed when Fed officials made some further dovish comments.

The US Fed Minutes from the September meeting also showed that the Fed will “proceed carefully” and there were mixed views on the need for further hikes. The September Fed meeting preceded the increase in longer end yields. The S&P 500 finished 0.4% higher, the NASDAQ rose by 0.7% and the Dow Jones ended the day 0.2% higher.

The ASX 200 rose for the fifth day, closing 0.7% higher. All sectors were in the green, led by materials stocks. Futures are pointing to a positive open this morning.

Interest Rates: Longer end US government bond yields continued to decline, while shorter end yields stabilised. The 2-year treasury yield increased by 1 basis point to 4.98%, while the 10-year yield dropped 9 basis points, to 4.56%.

Swaps traders reduced the probability of another Fed rate hike on the back of the higher longer end bond yields. The chance of a hike by the end of the year is sitting at around 20%. A rate cut is not fully priced until July 2024. There are four full rate cuts priced in by January 2025.

Aussie bond futures were also lower. The 3-year (futures) yield declined by 5 basis points to 3.89%, while the 10-year (futures) yield declined by 8 basis points to 4.36%.

Cash rate futures imply around a 35% chance of another rate hike from the Reserve Bank (RBA) by March next year. Rate cuts are not yet fully priced for 2024.

Foreign Exchange: The US dollar finished slightly lower given the lower bond yields and dovish comments from Fed officials. The DXY index touched a high of 106.01 before selling off to low of 105.56. The DXY is currently trading back around 105.72.

In volatile trade the Aussie dollar finished lower and continues to trade within a tight range. The AUD/USD pair declined from a high of 0.6445 to a low of 0.6388. The pair is currently trading around 0.6414.

Commodities: The price of oil declined by more than 2% as Saudi Arabia said it was working with regional and international partners to prevent an escalation in tensons and reaffirmed its efforts to stabilise oil markets. The West Texas Intermediate (WTI) price of oil declined to US$83.49 per barrel.

Australia: Reserve Bank Assistant Governor (Financial Markets), Chris Kent, delivered a speech to Bloomberg on the Channels of monetary policy transmission. The key messages were that some of the important channels are operating with a “delay” compared to previous cycles and that given the lags associated with monetary policy, “further effects of rate increases to date are still to be felt through the economy, which will provide further impetus to lower inflation in the period ahead.” Kent also noted that Australian banks have passed on about 75% of the increase in the cash rate to deposits, which is high compared with other economies. In New Zealand the equivalent figure is about 50%, while in the US it is about 35%.

New Zealand: Preliminary estimates have net migration running at a record high of 110,200 persons over the year to August 2023. Annual migrant arrivals reached an all-time high of 225,400 persons over the year to August, which was partly offset by migrant departures of 115,100 persons. Citizens of India, the Philippines, China, Fiji, and South Africa drove net migration gains in the August 2023 year.

Eurozone: German consumer price index (CPI) grew by 4.5% over the year to September. This was in line with preliminary estimates and represents a moderation from the 6.1% recorded in August. Core CPI, which excludes volatile items like food and energy, slowed to a one-year low of 4.6% in annual terms. On a monthly basis, the CPI increased by 0.3%, in line with preliminary estimate and the outcome recorded in the previous three months.

The European Central Bank’s Consumer expectations survey showed a slight rise in inflation expectations in August. The one year ahead inflation expectations measure increased to 3.5% from 3.4% in July. The three year ahead measure increased to 2.5% from 2.4% in July.

United States: Several Federal Reserve members spoke overnight. The consistent message was that higher longer end yields were doing some of the Fed’s heavy lifting, which may reduce the need for further rate hikes. Consistent with the Fed Minutes from the September meeting that were also released overnight, officials reiterated that policy rates may need to stay restrictive for some time. The minutes also noted that "all" Fed committee officials believed they were able to "proceed carefully."

Chris Waller, member of the Fed’s Board of Governors, said “the real side of the economy seems to be doing well. The nominal side is going in the direction we want. So we’re in this position where we kind of watch and see what happens on rates. Financial markets are tightening up and they are going to do some of the work for us.” This follows comments from Atlanta Federal Reserve Bank President, Raphael Bostic, who said “Today, I don’t think we need to do anything more in terms of interest rates.”

Michelle Bowman, member of the Fed’s Board of Governors, said “inflation remains well above the FOMC’s 2% target. Domestic spending has continued at a strong pace, and the labour market remains tight. This suggests that the policy rate may need to rise further and stay restrictive for some time to return inflation to the FOMC’s goal.”

Producer (or wholesale) prices rose 0.5% over September, following a 0.7% rise in August. This was stronger than the 0.3% increase the market was expecting. The stronger outcome was driven by the 5.4% surge in gasoline cost.

Core producer prices, excluding food and energy, grew by 0.3% over the month. This was slightly above the 0.2% increase the market was expecting. When also excluding the more volatile trade services component, core producer prices grew by 0.2% over September, in line with market expectations. These outcomes show that higher oil prices impacted domestic costs. With oil prices now falling, inflationary pressures should recede in future months.

Today’s key data and events:

AU Consumer Inflation Expectations Oct prev 4.6% (11am)

JN Core Machinery Orders Aug prev -1.1% (10:50am)

US CPI Sep (11:30pm)
m/m exp 0.3% prev 0.6%
y/y exp 3.6% prev 3.7%

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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