

Morning Report

Thursday, 7 October 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,207	-0.6%			Last	Overnight Chg		Australia		
US Dow Jones	34,417	0.3%	10 yr bond	98.41		0.05		90 day BBSW	0.02	-0.01
Japan Nikkei	27,529	-1.1%	3 yr bond	99.45		0.00		2 year bond	0.09	0.01
China Shanghai	3,740	0.9%	3 mth bill rate	99.96		-0.01		3 year bond	0.39	0.04
German DAX	14,973	-1.5%	SPI 200	7,210.0		33		3 year swap	0.55	0.00
UK FTSE100	6,996	-1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.61	0.09
Commodities (close & change)*			TWI	61.1	-	-	61.1	United States		
CRB Index	232.2	-3.6	AUD/USD	0.7289	0.7294	0.7226	0.7276	3-month T Bill	0.04	0.00
Gold	1,763.82	3.6	AUD/JPY	81.25	81.41	80.57	81.06	2 year bond	0.29	0.01
Copper	9,175.00	-79.0	AUD/GBP	0.5351	0.5355	0.5327	0.5354	10 year bond	1.52	0.00
Oil (WTI)	77.09	-1.8	AUD/NZD	1.0478	1.0522	1.0443	1.0520	Other (10 year yields)		
Coal (thermal)	193.75	-44.6	AUD/EUR	0.6286	0.6296	0.6252	0.6294	Germany	-0.18	0.01
Coal (coking)	384.00	2.0	AUD/CNH	4.7006	4.7046	4.6707	4.6960	Japan	0.08	0.02
Iron Ore	117.50	0.5	USD Index	94.0	94.4	94.0	94.2	UK	1.07	-0.01

Data as at 7:30am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US equity markets ended higher after volatile trading amid concerns around the US debt ceiling, inflation and energy prices. Interest rates were broadly unchanged and the US dollar rose.

Share Markets: Equity markets recovered from early losses following positive private sector employment data and indications that an agreement on extending the US debt ceiling to December may be forthcoming.

The S&P 500 recovered from early losses of more than 1% to end the session 0.4% higher. This is the fourth consecutive day of moves greater than 1% for the index. The NASDAQ rose 0.5%.

The ASX 200 fell 0.6%. Futures are pointing to a recovery on the open today.

Interest Rates: The 10-year US treasury yield was broadly unchanged at 1.52%. The 2-year yield rose 1 basis point to 0.29%.

The Australian 10-year government bond yield (futures) fell from 1.64% to 1.59%. The 3-year government bond yield (futures) fell 1 basis point to 0.55%.

Foreign Exchange: The US dollar and other safe-haven currencies rose. The USD Index was up from 94.0 to 94.4, before settling around 94.2.

The AUD/USD pair was weaker on the day. The pair fell from a high of 0.7294 to a low of 0.7226, before

recovering to 0.7276.

Commodities: Oil fell slightly following recent gains, copper was also down. Gold rose on the day, while iron ore was broadly unchanged.

COVID-19: NSW recorded 594 new cases yesterday and 10 deaths. Victoria recorded 1,420 new cases and 11 deaths. Elsewhere, the ACT recorded 28 new cases and one death.

Australia: In a bid to reduce risks in the housing market, the Australian Prudential Regulation Authority (APRA) wrote to authorised deposit-taking institutions (ADIs) to raise minimum serviceability buffers for new housing loans from 2.5 percentage points to 3 percentage points.

APRA has suggested this will result in a reduction in the maximum borrowing capacity of around 5% for the typical borrower. However, it advised that the overall impact on housing credit growth would be 'fairly modest'.

Overall, this is a small move. Some lenders are already using buffers higher than 2.5 percentage points.

APRA suggests investor lending is more likely to be affected by today's announcement. First-home buyers may also be impacted.

We expect the pace of growth in house prices to slow further but we are unlikely to see price falls materialise in the near term from today's measures

alone.

APRA has left the door open to tightening the screws further. We expect additional measures could follow over the next 12 months, including limits on loans with high debt-to-income ratios.

Eurozone: German factor orders fell sharply by 7.7% in August. This follows a 3.4% increase in July and was below consensus expectations of a 2.2% decline. Orders were impacted by severe shortages of materials and extended delivery times. Vehicle manufacturers were particularly impacted by the supply chain shortages.

Retail sales rose modestly in August, up 0.3%. This follows a 2.3% fall in July and was weaker than consensus expectations of a 0.8% rise. Online spending and non-food products rose. While spending on food, drinks & tobacco, and fuel fell over the month. On an annual basis, retail sales were unchanged over the year to August.

New Zealand: The Reserve Bank of New Zealand (RBNZ) increased the Official Cash Rate (OCR) by 25 basis points to 0.50%. This was widely expected and consistent with our expectations.

The increase in the OCR is in line with the RBNZ's intention of winding back monetary stimulus to maintain low inflation and support maximum sustainable employment.

Yesterday's statement acknowledged that the current COVID restrictions have suppressed activity and are placing a strain on some businesses. However, it concluded that these restrictions have not materially changed the medium-term outlook for inflation and employment since the August Monetary Policy Statement.

Looking ahead, we expect to see further rate hikes in November, February and May, taking the OCR to 1.25%. Beyond that, we expect the pace of further hikes to be gradual, as the RBNZ starts to converge on what it would consider to be a 'neutral' level for the OCR.

United States: The ADP national employment report showed that private sector employment rose by 568k in September. This was above consensus expectations of 430k and up on the revised August outcome of 340k. The increase was driven by strength in the services sector, particularly leisure and hospitality, which saw 226k jobs added. This sector was severely affected by the pandemic and associated lockdowns. Larger firms added the bulk of the jobs, with companies with 500 or more employees adding 390k jobs. The positive report comes ahead of official jobs numbers, which are

being released on Friday night.

Discussions regarding the debt ceiling continued. Senate Minority Leader McConnell reportedly offered Democrats a short term increase in the ceiling until December 2021. Such a move would delay risks of any potential near-term default.

Today's key data and events:

AU Weekly Payroll Jobs w/e 11 Sep (11:30am)

US Initial Jobless Claims w/e 2 Oct exp 349k prev 362k (10:30pm)

US Consumer Credit Aug exp \$17.5bn prev \$17.0bn (6am)

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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