

# Morning Report

Thursday, 11 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,424	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	36,079	-0.7%	10 yr bond	98.13		-0.12		90 day BBSW	0.04	0.00
Japan Nikkei	29,107	-0.6%	3 yr bond	98.80		-0.14		2 year bond	0.61	0.00
China Shanghai	3,660	-0.4%	3 mth bill rate	99.94		0.00		3 year bond	0.89	0.01
German DAX	16,068	0.2%	SPI 200	7,402.0		-10		3 year swap	1.30	0.15
UK FTSE100	7,340	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.73	-0.05
Commodities (close & change)*			TWI	62.0	-	-	61.7	United States		
CRB Index	234.7	20.5	AUD/USD	0.7380	0.7393	0.7326	0.7326	3-month T Bill	0.05	0.00
Gold	1,852.46	20.5	AUD/JPY	83.30	83.96	83.00	83.45	2 year bond	0.51	0.09
Copper	9,764.50	-133.0	AUD/GBP	0.5442	0.5472	0.5426	0.5463	10 year bond	1.56	0.13
Oil (WTI)	81.27	-2.9	AUD/NZD	1.0349	1.0391	1.0343	1.0378	Other (10 year yields)		
Coal (thermal)	149.95	-9.3	AUD/EUR	0.6364	0.6394	0.6351	0.6382	Germany	-0.25	0.05
Coal (coking)	376.00	0.8	AUD/CNH	4.7154	4.7207	4.6895	4.6898	Japan	0.06	0.00
Iron Ore	88.60	0.7	USD Index	94.0	94.9	94.0	94.9	UK	0.93	0.10

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** Stronger-than-expected US inflation data drove market sentiment overnight. Headline inflation rose to its fastest annual pace since December 1990. In response, bond yields rose sharply, equity markets fell, and the US dollar strengthened.

**Share Markets:** Equity markets fell by the most in a month as investors digested the potential implications of the higher-than-expected inflation outcome. The Nasdaq led the declines as tech stocks are considered to be the most vulnerable to higher inflation.

The S&P 500 fell 0.8% and the Nasdaq was down 1.7%.

**Interest Rates:** Bond yields jumped as investors adjusted their expectations on when the Federal Reserve would need to tighten monetary policy. The US 10-year treasury yield was 13 basis points higher to 1.56%. The 2-year yield also jumped 9 basis points to 0.51%. The market is now expecting the first Fed rate increase to be in August 2022. This compares to October 2022 yesterday.

The Australian 10-year government bond yield (futures) rose from 1.76% to 1.88%. The 3-year government bond yield (futures) also increased from 1.08% to 1.21%.

**Foreign Exchange:** The US dollar rose against all major currencies. The USD Index rose from a low of 94.0 to a high of 94.9, where it settled at the time

of writing.

The AUD/USD pair fell on the day. The pair fell from a high of 0.7393 to a low of 0.7326, a one-month low.

**Commodities:** Gold increased following the higher-than-expected inflation outcome. Oil was lower following news that US stockpiles of crude increased by 1 million barrels. Copper was also down, while iron ore was broadly unchanged.

**COVID-19:** Queensland hit its 80% first dose vaccination target yesterday. The milestone will trigger the easing of some restrictions, including mandatory masks.

**Australia:** Consumer sentiment remained elevated in November and was largely unchanged from October. This followed the easing of restrictions in Australia's two largest capital cities in October, and continued progress in the vaccine rollout.

The Melbourne Institute's monthly consumer sentiment index edged up 0.6% to 105.3 in November, following a decline of 1.5% in October, to hold above the long-run average of 101.3.

Consumer sentiment has been resilient through the delta lockdowns relative to 2020, supported by solid vaccination rates and roadmaps which have provided a path out of lockdowns. Yesterday's data marks another solid print, as businesses gear up for the busy Christmas shopping season.

New South Wales recorded the strongest monthly increase in consumer sentiment, up 4.4%, while sentiment edged up 0.7% in Victoria, likely reflecting that the Sydney lockdown lifted earlier than in Melbourne.

**China:** The producer price index rose 13.5% over the year to October, the highest rate on record, after 10.7% annual growth in September. China's factory gate prices were fuelled by imported inflation and tight domestic supply for energy and raw materials.

The rapid rise in producer price inflation is also beginning to flow on to consumers. The consumer price index (CPI) increased 1.5% over the year to October, the fastest pace since September 2020. The result provides further evidence of the building inflation risks, as producers pass on the effects of rising commodity prices, energy shortages and supply chain bottlenecks.

**United States:** Inflation rose at its fastest annual pace in more than three decades. The headline CPI rose by 0.9% in October. This was above consensus expectations of 0.6% and more than double the September outcome of 0.4%. Annual inflation rose at its fastest pace since December 1990, up 6.2% over the year to October. This follows annual inflation of 5.4% over the year to September and was above consensus expectations of 5.9%.

The rise was driven by expected increases in energy prices and continued supply-chain disruptions. However, the increase was also driven by gains in prices of new and used cars, tobacco, food, medical care, and shelter. On an annual basis, the energy and gasoline indices are up 30% and 50%, respectively.

The core inflation measure, which removes volatile items such as food and energy was also stronger-than-expected, rising by 0.6% in the month and 4.6% over the year to October. Annual core inflation rose at its fastest level since August 1991.

The strong outcome will place further pressure on the Federal Reserve to respond sooner rather than later.

Initial jobless claims fell to a pandemic low of 267k for the week ending 6 November as the labour market continues to recover from the impacts of the pandemic. This was down from a revised 271k in the previous period and above consensus expectations of 260k.

#### Today's key data and events:

AU Cons. Inflation Expect'ns Nov prev 3.6% (11am)

AU Labour Force (11:30am)

Employment Change Oct exp -50k prev -138.0k

Unemployment Rate Oct exp 4.7% prev 4.6%

Participation Rate Oct exp 64.3% prev 64.5%

UK GDP Q3 exp 1.5% prev 5.5% (6pm)

UK Industrial Production Sep exp 0.2% prev 0.8% (6pm)

Times are AEDT. 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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