

Wednesday, 13 October 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,281	-0.3%			Last	Overnight Chg		Australia		
US Dow Jones	34,378	-0.3%	10 yr bond	98.28				90 day BBSW	0.03	0.00
Japan Nikkei	28,231	-0.9%	3 yr bond	99.25				2 year bond	0.11	0.01
China Shanghai	3,717	-1.2%	3 mth bill rate	99.93				3 year bond	0.57	0.05
German DAX	15,147	-0.3%	SPI 200	7,261.0		14		3 year swap	0.71	0.00
UK FTSE100	7,130	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.72	0.00
Commodities (close & change)*			TWI	61.6	-	-	62.0	United States		
CRB Index	235.9	0.0	AUD/USD	0.7345	0.7385	0.7332	0.7352	3-month T Bill	0.04	-0.02
Gold	1,760.28	6.1	AUD/JPY	83.24	83.80	83.01	83.53	2 year bond	0.34	0.02
Copper	9,490.00	-74.8	AUD/GBP	0.5404	0.5423	0.5395	0.5411	10 year bond	1.57	-0.04
Oil (WTI)	80.55	0.0	AUD/NZD	1.0591	1.0612	1.0580	1.0606	Other (10 year yields)		
Coal (thermal)	239.65	8.2	AUD/EUR	0.6357	0.6391	0.6347	0.6376	Germany	-0.09	0.04
Coal (coking)	396.67	6.7	AUD/CNH	4.7447	4.7639	4.7351	4.7467	Japan	0.09	0.00
Iron Ore	129.00	1.3	USD Index	94.4	94.6	94.2	94.5	UK	1.15	-0.04

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: Investors are waiting for the start of the US earnings season, which gets underway tonight, and are continuing to mull over inflation risks.

Share Markets: Trading in share markets was choppy after investors returned from a National Holiday in the US and as investors head into the earnings season. Investors also continued to weigh inflation risks, after remarks Fed speakers and the publication of the IMF's semi-annual World Economic Outlook. At the close, the Dow was down 118 points (or -0.3%), the S&P 500 index fell 11 points (or -0.2%) and the Nasdaq declined 20 points (or -0.1%).

Interest Rates: The US 2-year bond yield closed 2 basis points higher while the US 10-year yield dropped 4 basis points, leading to a curve flattening.

Foreign Exchange: The AUD/USD lifted from an overnight low of 0.7332 to a one-month high of 0.7385 and then fell back down towards the 0.7330 handle. The AUD/USD remains in an upward trend, since hitting a low of 0.7170 on 29 September. The next level of resistance is around the 0.7420 mark.

In other notable currency developments, USD/JPY rose from 113.00 to a 3-year high of 113.79 and the AUD/NZD struck a two-month high overnight of 1.0612.

Commodities: World oil prices continued to hover around US\$80 a barrel (using the West Texas Intermediate quote).

COVID-19: NSW recorded 360 new cases and five deaths. Victoria recorded 1,466 new cases and eight deaths. Elsewhere, the ACT recorded 28 new cases and SA recorded one new case.

Australia: Business confidence leapt higher in September alongside progress in the vaccine rollout and the release of reopening roadmaps.

Business confidence rose 19 points to a four-month high of +13, putting it back in strongly positive territory and well-above the long-run average. It is the biggest monthly gain since mid 2020.

However, business conditions fell 10 points to +5 alongside ongoing lengthy lockdowns in NSW, Victoria and the ACT. The conditions index is now just below the long-run average.

Confidence has been more resilient this year than earlier in the pandemic, likely reflecting the certainty provided by vaccines that there will be an end to lockdowns. Businesses have also learnt how to better adapt to lockdowns after their experiences earlier in the pandemic.

By state, the rebound in confidence was driven largely by a sharp jump in NSW. Confidence also rose in Victoria. In trend terms, confidence remains strongest in the smaller states that have avoided

lengthy lockdowns – Tasmania, WA and SA.

By industry, the jump in confidence was led by recreation & personal services and wholesale trade. Elsewhere, the ANZ-Roy Morgan weekly consumer confidence index rose for the fifth consecutive week. The index increased by 1.0% to 105.6 for the week ending 10 October. Confidence was boosted by the anticipation of Sydney coming out of its extended lockdown.

New Zealand: Retail spending rose by 0.9% in September. This result was much weaker-than-expected, as the country moved down to Alert Level 2 in most areas. Activity restrictions continue to weigh on spending. Spending in all categories (excluding groceries) remains well below pre-Delta levels.

After a year of small net migration gains from Australia, there were small net migration losses to Australia over the past six months. Net migration losses of 1,100 and 2,700 to Australia were recorded for the December 2020 and March 2021 quarters, respectively.

Eurozone: The German ZEW headline numbers for October showed that the economic sentiment Index worsened to 22.3, from 26.5 in the previous month while missing consensus estimates for an increase to 24.0. Both the current conditions and expectations sub indexes disappointed.

United Kingdom: The unemployment rate in August fell to 4.5%, from 4.6% in July. The result was in line with consensus expectations. Employment rose 235k in the month, just under expectations.

United States: US consumers are seeing elevated prices continuing, with household expectations for inflation one year ahead rising to 5.3% last month, according to the New York Fed. It is the highest reading on record in the survey's eight-year history. There were 10.4 million job openings in the US at the end of August — down slightly from July's record high, which was adjusted up to 11.1 million, but still a tremendously high number.

The number of people quitting their jobs also surged to record highs; around 4.3 million people quit their jobs in August, which is 2.9% of the workforce. Those numbers are up from the previous record set in April, of about 4 million people quitting, reflecting how the pandemic has continued to jolt workers' mind-sets about their jobs and their lives.

A closely followed gauge of small-business confidence fell in September to a six-month low,

reflecting widespread shortages in the economy that are hampering the speed of the US recovery. The National Federation of Independent Business said its optimism index slipped one point to 99.1 in September. It is the lowest reading since March.

Federal Reserve Vice Chair Clarida reiterated that tapering could soon be warranted and that the bond-buying program should come to an end around the middle of 2022. Clarida added that inflation risks are to the upside, but the surge should prove "transitory." He also said the economy continues to strengthen and the labour market's improvement this year has been "notable" and that the supply challenges in the labour market have been a surprise.

Atlanta Fed Bank President Raphael Bostic said US inflation is above the Federal Reserve's 2% inflation target and policymakers need to watch carefully to ensure that pandemic-induced pressures do not cause long-term inflation expectations to become unanchored.

Bostic said he believes that many of the pricing trends caused by the pandemic will "unwind by themselves," but he cautioned that some of the supply-chain disruptions may last longer than initially expected. Bostic added that up to now, indicators do not suggest that long-run inflation expectations are dangerously untethered, but the episodic pressures could grind on long enough to unanchor expectations.

Bostic, who has a vote in the Fed's policy-setting committee this year, said he and his staff will stop referring to inflationary pressures as "transitory." He said he thinks inflation is above the Fed's 2% target and is likely to remain above 2% "going forward." Bostic is still comfortable with tapering beginning in November.

World: In its bi-annual World Economic Outlook report, the International Monetary Fund (IMF) slightly downgraded its world economic growth outlook for 2021. The IMF now expects world GDP to be 5.9% in 2021, down 0.1 percentage points from the previous estimate. For 2022, the GDP forecast is unchanged at 4.9%.

The IMF warned the global economy is entering a phase of inflationary risk and called on central banks to be "very, very vigilant" and take early action to tighten monetary policy should price pressures prove persistent. The fund said central banks should generally ignore higher prices that stemmed from energy price shocks or temporary difficulties in bringing products to market. But it

should act if there are signs that companies, households or workers start to expect high inflation to linger.

The IMF also warned of slipping momentum in global growth after a strong recovery so far this year.

Today's key data and events:

AU WBC-MI Cons. Conf. Oct prev 106.2 (10:30am)

CN Trade Bal. Sep prev US\$58.3bn (Time TBC)

Exports Sep y/y exp 21.5% prev 25.6%

Imports Sep y/y exp 20.9% prev 33.1%

JP Machinery Orders Aug exp 1.4% prev 0.9% (10:50am)

NZ ANZ Business Confidence Oct Prel. prev -7.2 (11am)

EZ Industrial Production Aug exp -1.7% prev 1.5% (8pm)

US CPI Sep exp 0.3% prev 0.3% (11:30pm)

US FOMC Meeting Minutes Sep 22 (5am)

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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