

Morning Report

Thursday, 16 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,327	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	35,927	1.1%	10 yr bond	98.35				90 day BBSW	0.06	0.00
Japan Nikkei	28,460	0.1%	3 yr bond	98.77				2 year bond	0.63	0.01
China Shanghai	3,823	-0.4%	3 mth bill rate	99.82				3 year bond	0.91	0.06
German DAX	15,476	0.1%	SPI 200	7,347.0				3 year swap	1.30	0.04
UK FTSE100	7,171	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.56	0.02
Commodities (close & change)*			TWI	60.0	-	-	60.1	United States		
CRB Index	223.8	-0.5	AUD/USD	0.7103	0.7174	0.7093	0.7173	3-month T Bill	0.04	-0.01
Gold	1,778.20	7.4	AUD/JPY	80.79	81.80	80.75	81.81	2 year bond	0.66	0.00
Copper	9,227.50	-194.0	AUD/GBP	0.5371	0.5409	0.5364	0.5409	10 year bond	1.46	0.02
Oil (WTI futures)	71.58	0.8	AUD/NZD	1.0533	1.0598	1.0530	1.0575	Other (10 year yields)		
Coal (thermal)	162.30	-0.4	AUD/EUR	0.6310	0.6355	0.6306	0.6352	Germany	-0.36	0.01
Coal (coking)	339.33	-10.3	AUD/CNH	4.5271	4.5726	4.5231	4.5732	Japan	0.05	0.00
Iron Ore	112.55	0.0	USD Index	96.57	96.91	96.30	96.38	UK	0.74	0.01

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: The US Federal Reserve announced it will double the pace of tapering to \$30 billion per month, as widely expected. Committee officials are expecting three rate hikes in 2022, compared with one previously. The shift was moderately more hawkish than expected by markets. US equities shrugged off the news to finish higher, while long-end bond yields rose modestly.

Share Markets: US stocks rose despite the Fed's more hawkish policy stance. The NASDAQ led the way, up 2.2%, while the S&P 500 and the Dow Jones closed up 1.5% and 1.1%, respectively.

The ASX 200 finished 0.70% lower.

Interest Rates: The US 2-year treasury yield briefly spiked from 0.66% to 0.72% before retracing to close mostly unchanged. The US 10-year treasury yield rose from 1.44% to touch 1.48% before moderating to 1.46%. Markets are now pricing the first Fed rate hike for May 2022.

The Australian 3-year bond yield (futures) rose from a low of 1.17% to 1.23%. The 10-year government bond yield (futures) increased from 1.62% to 1.66%.

The first cash rate hike remains fully priced for August 2022, according to interbank cash rate futures.

Foreign Exchange: The AUD/USD pair fell to 0.7093 on the Fed announcement before rising sharply to a high of 0.7173.

The US dollar index fell from a high of 96.91, to a low of 96.30, before consolidating at 96.38 at the time of writing.

Commodities: West Texas Intermediate (WTI) crude oil futures rose. Gold and iron ore also firmed.

Australia: Consumer sentiment pulled back slightly in December, following the emergence of the Omicron variant. The Melbourne Institute's consumer sentiment index fell 1.0% to 104.3 in the month. However, consumers remain optimistic as sentiment held above the long-run average.

Concerns over Omicron appeared to weigh most heavily on states hit hard by lockdowns, including NSW and Victoria where confidence fell. Sentiment improved in Queensland, WA and SA.

The fall in the headline measure was driven primarily by a drop in the "time to buy a major household item" sub-index. This likely reflects virus concerns, as well as other factors like supply disruptions and a rebalancing of spending towards services as lockdowns have lifted.

Elevated confidence is good news for consumer spending. Indeed, a solid rebound in consumption is already underway. We expect pent-up demand, large household savings buffers and the strong housing market to underpin bumper growth in spending in the period ahead.

China: Retail sales grew by less than expected over

the year to November. Retail sales rose 3.9% in annual terms, below market expectations of a 4.7% rise and less than the 4.9% increase recorded over the year to October. Lockdowns to control COVID-19 cases, as China continues to pursue a zero COVID strategy, contributed to the slowdown.

Industrial production picked up in November, increasing 3.8% year-on-year. The increase beat consensus estimates of a 3.7% rise and is an improvement on the 3.5% annual increase recorded in October.

New Zealand: The seasonally adjusted current account deficit widened to \$4.8bn in the September quarter. This follows a \$3.1bn deficit in the June quarter. The annual deficit widened to \$15.9 billion, representing 4.6% of GDP. The growing deficit reflects that the economy is running hot, spurring a surge in the consumption of imports. Meanwhile, exports rose more slowly, in part reflecting the absence of tourism revenue.

United Kingdom: Consumer prices continued to surge in November, beating market expectations. The consumer price index (CPI) was up 0.7% over the month, bringing the annual pace of inflation to 5.1%. This is the fastest pace of consumer price inflation in over 10 years. Core CPI, which excludes volatile items such as energy, jumped to 4.0% year-on-year. This is the fastest growth in core inflation since July 1992.

The CPI print will place further pressure on the Bank of England (BoE) to take action to curb rising inflation. However, this is complicated by Omicron concerns which may see the BoE maintain supportive policy settings for longer.

United States: The Fed announced significant shifts in policy overnight, by doubling the pace of tapering from January 2022. Net asset purchases will be scaled back by \$30 billion per month. The faster taper will bring the end of the asset purchase program forward to March 2022 and provide flexibility for an earlier lift-off in interest rates. Indeed, the Fed's projections showed officials expect three hikes in the federal funds rate next year, compared to one previously. Markets generally expected the projections to show two hikes next year. The Fed kept the federal funds rate unchanged, flagging that rates will remain on hold until full employment conditions are met. Although, Fed Chairman Jerome Powell suggested rates may rise before reaching full employment in a post-meeting press conference.

The New York Fed manufacturing index (Empire)

increased 1 point to 31.9 in December, beating expectations. The survey indicated that improving supply chain conditions have taken some steam out of input and output prices. However, cost pressures are expected to continue. Future expectations remain stable and point to a continued manufacturing upturn in 2022.

Retail sales growth cooled off in November, up 0.3% from a revised 1.8% increase in October. The increase came in below market expectations. The slowdown in sales over the month suggests consumers have pulled back spending amid surging inflation.

The import price index rose 0.7% in November, down from a revised 1.5% jump in October. The result was driven by a moderation in the cost of petroleum, however underlying price pressures remain. In annual terms, import prices are up 11.7%, the fastest annual pace of imported inflation since September 2011.

Business inventories jumped 1.2% in October, following a 0.8% increase in September. The increase was driven by rises in clothing and building material inventories, while motor vehicle inventories continue to fall.

The NAHB housing market index increased 1 point to 84 in December, consistent with market expectations. A lack of inventory remains a crucial hurdle for the housing sector.

Today's key data and events:

NZ GDP Q3 exp -4.1% prev 2.8% (8:45am)
AU Cons. Inflation Exp. Dec prev 4.6% (11am)
AU Labour Force Nov (11:30am)
Employment Change exp 220k prev -46.3k
Unemployment Rate exp 5.3% prev 5.2%
Participation Rate exp 65.8% prev 64.7%
EZ Markit Mfg PMI Dec Prel. exp 57.8 prev 58.4 (8pm)
EZ Markit Services PMI Dec Prel. prev 55.9 (8pm)
EZ Trade Balance Oct exp €5.8bn prev €6.1bn (9pm)
EZ ECB Policy Decision exp 0.0% prev 0.0% (11:45pm)
UK Markit Mfg PMI Dec Prel. exp 57.6 prev 58.1
(8:30pm)
UK Bank of England Policy Decision (11pm)
Bank Rate exp 0.10% prev 0.10%
US Total Net TIC flows Oct prev -\$26.8bn (8am)
US Housing Starts Nov exp 3.1% prev -0.7% (12:30am)
US Philadelphia Fed Index Dec exp 29.1 prev 39.0
(12:30am)
US Bld Permits Nov exp 0.6% prev 4.2% (12:30am)
US Ind. Prod. Nov exp 0.6% prev 1.6% (1:15am)
US Kansas City Fed index Dec exp 25 prev 24 (3am)

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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