

Morning Report

Tuesday, 16 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,470	0.4%			Last	Overnight Chg		Australia		
US Dow Jones	36,088	0.0%	10 yr bond		98.15	-0.06		90 day BBSW	0.05	0.01
Japan Nikkei	29,777	0.6%	3 yr bond		98.82	-0.03		2 year bond	0.69	-0.03
China Shanghai	3,703	-0.2%	3 mth bill rate		99.93	-0.01		3 year bond	0.97	-0.06
German DAX	16,149	0.3%	SPI 200		7,433.0	-36		3 year swap	1.33	0.02
UK FTSE100	7,352	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.77	-0.03
Commodities (close & change)*			TWI	61.3	-	-	61.6	United States		
CRB Index	237.5	0.4	AUD/USD	0.7324	0.7371	0.7322	0.7345	3-month T Bill	0.04	-0.01
Gold	1,862.94	-2.0	AUD/JPY	83.44	83.93	83.39	83.84	2 year bond	0.52	0.01
Copper	9,705.50	-135.5	AUD/GBP	0.5458	0.5491	0.5458	0.5478	10 year bond	1.62	0.06
Oil (WTI)	80.97	0.2	AUD/NZD	1.0405	1.0438	1.0396	1.0431	Other (10 year yields)		
Coal (thermal)	141.05	-0.2	AUD/EUR	0.6397	0.6466	0.6397	0.6464	Germany	-0.23	0.03
Coal (coking)	377.00	2.7	AUD/CNH	4.6707	4.7020	4.6707	4.6884	Japan	0.07	-0.01
Iron Ore	87.90	-0.1	USD Index	95.1	95.6	95.0	95.6	UK	0.96	0.05

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: Several former policymakers in the US made hawkish remarks overnight and suggested the Fed would need to hike rates to 3% or above. Manufacturing data from the New York Fed showed the prices received component rose to a record high, stoking inflation fears. And the UK government raised its terror threat to severe after a bomb explosion outside a hospital.

Share Markets: The key share market indexes in the US finished lower overnight, as a sell-off in tech shares weighed on share markets. Tesla slipped further after Elon Musk suggested on the weekend he might sell more of his Tesla stock. The Dow dropped 13 points, the S&P 500 eased 5 points and the Nasdaq shed 7 points.

Interest Rates: The US 2-year Treasury yield rose from an overnight low of 0.50% to 0.52% via 0.54%. The US 10-year yield rose from an overnight low of 1.54% to 1.62%. Interest-rate markets are fully pricing the first Fed funds rate hike to be in August 2022.

The Australian 3-year government bond yield (futures) rose from 1.14% to 1.20%, while the 10-year yield rose from 1.78% to 1.85%. Markets are fully priced for the first RBA rate hike in the new cycle to be in June next year.

Foreign Exchange: The US dollar appreciated overnight, rising to a near-16-month high of 95.51.

There was no obvious catalyst, although hawkish rhetoric from former Fed officials is likely to have helped spur demand.

The EUR/USD pair fell from 1.1464 to a 16-month low of 1.1381, primarily driven by strength in the USD. A smaller-than-expected eurozone trade surplus is also likely to have led to softer demand for the EUR.

The AUD again outperformed last night amid broad based USD strength. It rose from an overnight low of just under 0.7340 to 0.7371, before slipping back to 0.7350. The AUD/USD remains well within a trading range of 0.7156-0.7617 that it has been in since late June.

Commodities: Oil fell but later recovered after Energy Secretary Jennifer Granholm told media that Biden is (again) considering tapping the Strategic Petroleum Reserve (SPR) to curb high fuel prices.

Australia: There were no major economic releases in Australia yesterday. Later today, the Reserve Bank (RBA) Governor gives an address to an event organised by the Australian Bureau of Economists' Association and the RBA minutes from the last meeting are also released.

China: The Chinese economy showed signs of stabilising in October. Industrial production was up 3.5% on a year earlier, following a 3.1% rise over the year to September. The growth comes

alongside easing energy shortages. Power supply has improved 11.1% on a year ago. In other data, retail sales beat consensus expectations, rising 4.9% over the year to October, following a 4.4% annual increase in September.

Eurozone: The euro zone's trade surplus dropped sharply in September, as costs of importing energy soared. Eurostat said the adjusted trade surplus was €6.1 billion, down from €9.7 billion in August. Economists polled by Bloomberg had forecast an adjusted surplus of €11.5 billion.

Japan: Supply chain bottlenecks and virus curbs weighed on the economy in the September quarter. GDP contracted 0.8% over the quarter. The outcome was weaker than consensus expectations of a 0.2% decline. Private consumption and business investment both contributed to the decline, falling 1.1% and 3.8%, respectively for the quarter. The economy should bounce back as vaccination rates continue to rise and supply-chain disruptions begin to ease.

New Zealand: Net migration increased to 653 in September, following a revised migration inflow of 211 people in August. In annual terms, net migration over the year to September was at its lowest level for a September year since 2012. Overseas travel restrictions continue to limit migration.

United Kingdom: Overnight, the UK government increased its terror threat level to severe, after a taxi explosion outside a hospital in England.

In economic news, Bank of England (BoE) Governor Andrew Bailey said he's "very uneasy about the inflation situation" amid evidence that a shortage of workers will drive up wages. He told UK lawmakers overnight that the labour market is looking "tight," but that he wanted to see what happened after the furlough program ended before voting to raise rates.

United States: The New York Fed's Empire State manufacturing business conditions index rose 11.1 points to 30.9 in November. Consensus had expected a reading of 22. Any reading above zero indicates improving conditions.

The prices-received index hit a record high in November and the prices-paid reading was not far below its record high.

The new-orders index rose 4.5 points in November to 28.8, and the shipments index soared 19.3 points to 28.2. Unfilled orders slipped and delivery times lengthened. Inventories fell slightly. Employment

rose 8.9 points to a record 26 in November.

Overnight, the former President of the New York Federal Reserve, William Dudley, said that the Fed may have to raise rates to at least 3% to try to keep inflation in check. He said the peak will be "probably 3% to 4%." Former Richmond President Jeffrey Lacker agreed, saying 3.5% to 4% is "plausible." The two, along with ex US Treasury Secretary Larry Summers, suggested that the Fed should accelerate tapering.

Today's key data and events:

AU RBA Board Meeting Minutes (11:30am)
 AU RBA Governor Lowe Address to the ABE (1:30pm)
 UK ILO Unemploy. Rate Sep exp 4.4% prev 4.5% (6pm)
 EZ GDP Q3 Prel. exp 2.2% prev 2.2% (9pm)
 EZ Employment Q3 Prel. prev 0.7% (9pm)
 US Retail Sales Oct exp 1.3% prev 0.7% (12:30am)
 US Import Price Index Oct exp 1.0% prev 0.4% (12:30am)
 US Industrial Prod'n Oct exp 0.8% prev -1.3% (1:15am)
 US Business Inventories Sep exp 0.6% prev 0.6% (2am)
 US NAHB Housing Mkt Index Nov exp 80 prev 80 (2am)

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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