bankSA

Morning Report

Wednesday, 17 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,420	-0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	36,144	0.2%	10 yr bond	98.11		-0.04		90 day BBSW	0.04	0.00
Japan Nikkei	29,808	0.1%	3 yr bond	98.77		-0.03		2 year bond	0.71	0.02
China Shanghai	3,691	-0.3%	3 mth bill rate	99.93		-0.01		3 year bond	1.02	0.05
German DAX	16,248	0.6%	SPI 200	7,428.0		19		3 year swap	1.37	0.05
UK FTSE100	7,327	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.83	0.07
Commodities (close & change)*			TWI	61.6	-	-	61.7	**United States**		
CRB Index	237.5	0.0	AUD/USD	0.7345	0.7368	0.7300	0.7297	3-month T Bill	0.04	0.00
Gold	1,850.21	-12.6	AUD/JPY	83.84	84.16	83.70	83.80	2 year bond	0.51	0.00
Copper	9,710.50	-65.5	AUD/GBP	0.5478	0.5486	0.5436	0.5437	10 year bond	1.63	0.02
Oil (WTI)	80.77	-0.1	AUD/NZD	1.0431	1.0457	1.0415	1.0443	**Other (10 year yields)**		
Coal (thermal)	140.60	5.3	AUD/EUR	0.6464	0.6473	0.6444	0.6450	Germany	-0.24	-0.01
Coal (coking)	376.67	-0.3	AUD/CNH	4.6884	4.6974	4.6653	4.6654	Japan	0.08	0.01
Iron Ore	88.55	-0.5	USD Index	95.6	95.9	95.4	95.9	UK	0.99	0.03

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: US stocks hit new record highs alongside stronger-than-expected US data, which overshadowed comments from a Fed Reserve official calling for the reduction in stimulus to be sped up.

Share Markets: The S&P 500 rose 0.5% to a new record high, and the Dow was up 0.2%, following strong US retail sales figures, factory output and homebuilder confidence. The ASX 200 slipped 0.7%.

Interest Rates: The US 10-year treasury yield rose 2 basis points to 1.63% while the 2-year yield finished unchanged at 0.51%.

The Australian 10-year (futures) yield rose 4 basis points to 1.90%, while the 3-year futures yield increased 2 basis points to 1.23%.

Foreign Exchange: The AUD/USD pair fell from 0.7345 to breaking under 0.7300, alongside a stronger US dollar. The US dollar index rose to its highest level since July 2020.

Commodities: Gold, copper and iron ore slipped lower.

Australia: The minutes from the November Reserve Bank (RBA) board meeting were released yesterday, further reiterating recent messaging on inflation.

The minutes were closely followed by a speech delivered by the RBA Governor, covering recent trends in inflation, and echoing the stance set out in the minutes. The RBA conceded that inflation had printed stronger than expected and that the distribution of possible outcomes had shifted upwards. There is elevated uncertainty over the inflation outlook, reflecting uncertainty over the persistence of supply-chain disruptions and the behaviour of wages at low levels of unemployment. However, the RBA argues it is "plausible" the first cash rate hike will come in 2023 or 2024 but continued to push back on the possibility of rate hikes in 2022.

The Governor indicated the inflation outlook in Australia is different to many other advanced economies for a few reasons. First, the starting point for inflation and wages was lower in Australia. Second, labour market participation rebounded very quickly in Australia unlike some other economies, which puts less upward pressure on wages. Finally, the impact of supply-chain disruptions and energy price shocks has been less pronounced in Australia. The Governor reiterated that wages growth will likely need to be above 3% to sustainably move inflation towards the middle of the target band over time.

In a nod to the recent moves to drop the forward guidance that the cash rate wouldn't lift until 2024, the minutes noted that the RBA will communicate future decisions "based on the state of the economy" not "dates on the calendar".

We continue to expect the first cash rate hike from

the RBA will come in 2023, although we would not rule out a move sooner, particularly if supply-chain disruptions persist for longer than expected. Coming up sooner, however, is a review of the RBA's quantitative easing program. In February, the RBA Board will assess the rate of bond purchases (currently $4 billion per week). We expect purchases will be stepped down, likely to $2 billion per week, before concluding before the middle of 2022.

Eurozone: GDP growth was finalised at 2.2% in the September quarter, in line with the preliminary reading. The quarterly reading brings year on year GDP growth to 3.7%. Consumer spending was solid, as people returned to shops and restaurants and tourism picked up. Economic growth has been slowed by the global supply squeeze and is expected to pick up further as bottlenecks ease, alongside a shift in demand towards services.

Employment also recovered in the September quarter, rising 0.9%. The increase is the second straight quarterly increase in employment, following a 0.7% increase in the June quarter. The labour market is showing signs of recovery however, employment remains below pre-pandemic levels.

United Kingdom: The unemployment rate came in at 4.3% for the three months to September, down from 4.5% in August. Payroll figures, which run a month ahead of official data, showed an extra 160k employees on payroll in October. Meanwhile, job vacancies are soaring, pointing to an ongoing recovery in the labour market.

United States: Federal Reserve official James Bullard said the central bank should speed up its reduction in monetary stimulus in response to the surge in US inflation. Bullard votes on monetary policy in 2022.

Retail sales rose 1.7% in October, beating expectations of a 1.4% gain, marking the strongest monthly gain since March. This followed a 0.8% increase in September. The uptick in sales was broad based, with sales well-above pre-pandemic levels. Elevated savings and strong wages growth have boosted household spending. However, looking ahead, the recent collapse in consumer sentiment alongside rising prices could temper demand.

Industrial production rose 1.6% in October, beating consensus forecasts for a 0.9% increase. This more than offset a dip in September driven by disruptions from a hurricane. The rise took production back above pre-pandemic levels.

The NAHB housing market index, a measure of homebuilder confidence, rose to a six-month high in November. The index rose to 83 from 80, reflecting stronger sales driven by low mortgage rates and higher foot traffic. However, labour shortages and supply disruptions continue to pose challenges, delaying completions and driving up costs.

Business inventories rose 0.7% in September, following a 0.8% gain in October. However, motor vehicle retailers continued to struggle to restock alongside the global semiconductor shortage which has hit production.

US import prices surged 1.2% in October, following a 0.4% increase in September, driven by increased in the cost of petroleum products and food. In the 12 months to October, import prices jumped 10.7%, adding to signs of red-hot price pressures.

Export prices rose 1.5% in October to be 18.0% higher over the year, the biggest increase since the series was first published in 1983.

Today's key data and events:

US Total Net TIC flows Sep prev $91.0bn (8am)
NZ PPI Output Q3 prev 2.6% (8:45am)
AU WBC Leading Index Oct prev -0.02% (10:30am)
JP Machinery Orders Sep prev -2.4% (10:50am)
AU Wage Price Index Q3 (11:30am)
q/q exp 0.5% prev 0.4%
y/y exp 2.2% prev 1.7%
UK CPI Oct exp 0.8% prev 0.3% (6pm)
EZ CPI y/y Oct Final exp 4.1% prev 3.4% (9pm)
US Housing Starts Oct exp 1.5% prev -1.6% (12:30am)
US Building Permits Oct exp 2.8% prev -7.7% (12:30am)

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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