

# Morning Report

Thursday, 18 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,370	-0.7%	Last		Overnight Chg			Australia		
US Dow Jones	35,932	-0.6%	10 yr bond	98.16	0.03			90 day BBSW	0.04	0.00
Japan Nikkei	29,688	-0.4%	3 yr bond	98.84	0.01			2 year bond	0.69	-0.02
China Shanghai	3,707	0.4%	3 mth bill rate	99.94	-0.01			3 year bond	0.99	-0.03
German DAX	16,251	0.0%	SPI 200	7,368.0	-2			3 year swap	1.31	-0.04
UK FTSE100	7,291	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.86	0.03
Commodities (close & change)*			TWI	61.7	-	-	61.3	United States		
CRB Index	236.1	-1.4	AUD/USD	0.7297	0.7305	0.7259	0.7265	3-month T Bill	0.05	0.01
Gold	1,866.67	16.0	AUD/JPY	83.80	83.92	82.82	82.92	2 year bond	0.50	-0.02
Copper	9,576.50	-134.0	AUD/GBP	0.5437	0.5441	0.5384	0.5386	10 year bond	1.59	-0.04
Oil (WTI)	78.45	-2.3	AUD/NZD	1.0443	1.0450	1.0376	1.0383	Other (10 year yields)		
Coal (thermal)	147.00	0.8	AUD/EUR	0.6450	0.6457	0.6416	0.6417	Germany	-0.25	0.00
Coal (coking)	375.50	-1.2	AUD/CNH	4.6654	4.6694	4.6279	4.6303	Japan	0.08	0.00
Iron Ore	88.80	0.0	USD Index	95.9	96.2	95.7	95.8	UK	0.96	-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:** Risk sentiment deteriorated on concerns inflation and another wave of infections could challenge the global economic rebound. US equities and US bond yields declined. The AUD/USD touched its lowest level in more than a month.

**Share Markets:** US stocks declined alongside data showing a slowdown in US home building. The Dow fell 0.6% and the S&P 500 slipped 0.1%. The ASX 200 dropped 0.7%.

**Interest Rates:** The US 10-year bond yield declined 4 basis points to 1.59%, while the 2-year yield slipped 2 basis points to 0.50%.

The Australian 10-year (futures) yield fell 4 basis points to 1.85%. The 2-year futures yield was effectively unchanged at 1.17%.

**Foreign Exchange:** The AUD/USD continued to track lower, touching its lowest level since early October. The pair fell from 0.7297 to 0.7265. A break under 0.7230 could see another move lower in the medium term.

**Commodities:** Gold firmed while WTI crude oil and copper slipped.

**Australia:** Wages growth is heating up, albeit from a low base. Wages rose 0.6% in the September quarter, to be 2.2% higher over the year. This takes annual growth to a 2-year high, back to its pre-pandemic level. Pressure on wages is building as labour shortages persist, particularly in industries

impacted by international border closures.

Private sector wages rose 0.6% in the September quarter to be 2.4% higher over the year, marking the strongest annual rate since late 2014. Public sector wages, however, are lagging, rising 0.5% in the quarter to be up 1.7% over the year. This partly reflects a period of public sector wages freezes, which have now been lifted.

The Reserve Bank (RBA) suggests wages growth will need to be over 3% to get inflation sustainably back in the target band. We are still some way from this goal. Markets are pricing in a cash rate hike for as early as mid next year, but yesterday's data backs the RBA's view that a hike may not materialise until 2023.

Leading indicators suggest the labour market is tightening and labour shortages remain an issue. Wage pressures are building. The resumption of skilled migration should help alleviate some of these pressures.

Separately, the six-month annualised growth rate in the Westpac-Melbourne Institute Leading index was -0.5% in October, unchanged from September. The index indicates the likely pace of economic activity relative to trend for three to nine months ahead.

**Eurozone:** Annual CPI inflation was finalised at 4.1% in October, its highest level on record, in line with the preliminary reading. This follows a 3.4% reading for September. The core measure reached 2.0%.

The bulk of the increase was driven by rising energy costs.

**New Zealand:** Producer output prices rose 1.8% in the September quarter, while input prices rose 1.6% over the period. In annual terms, producer output prices rose 6.2%, while producer input prices were up 7.0%. A 25 basis point rate hike is effectively locked in for next week's Reserve Bank of New Zealand meeting. But as price pressures continue to surge, a 50 basis point hike could be on the cards.

**United Kingdom:** Inflation was stronger than expected in October, with headline CPI up 1.1% in the month and 4.2% over the year. This takes the annual growth rate to its highest level since 2011. The combined increase in the cost of transport, second-hand cars, fuel and energy led to the rise. The core measure rose 3.4% over the year. CPI is now more than double the Bank of England's 2% target, adding pressure on the central bank to lift the policy rate.

**United States:** Housing starts unexpectedly fell 0.7% in October, mostly reflecting supply difficulties, after a 1.6% decline in September. Meanwhile, building permits rose 4.0% in October after dropping 7.7% in September.

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

AU RBA's Richards to give speech (1:05pm)  
AU RBA Assistant Gov Ellis to give speech (4:35pm)  
US Phil. Fed Index Nov exp 24.0 prev 23.8 (12:30am)  
US Leading Index Oct exp 0.8% prev 0.2% (2am)  
US Kansas City Fed index Nov exp 28 prev 31 (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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