

Morning Report

Tuesday, 23 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,353	-0.6%			Last	Overnight Chg		Australia		
US Dow Jones	35,619	0.0%	10 yr bond		98.10	-0.09		90 day BBSW	0.05	0.00
Japan Nikkei	29,774	0.1%	3 yr bond		98.80	-0.06		2 year bond	0.68	0.00
China Shanghai	3,754	0.6%	3 mth bill rate		99.93	-0.01		3 year bond	0.96	0.00
German DAX	16,116	-0.3%	SPI 200		7,341.0	-12		3 year swap	1.41	0.06
UK FTSE100	7,255	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.79	-0.02
Commodities (close & change)*			TWI		61.1	-	-	61.0	United States	
CRB Index	235.3	0.2	AUD/USD	0.7242	0.7273	0.7222	0.7222	3-month T Bill	0.04	-0.01
Gold	1,805.05	-40.7	AUD/JPY	82.51	83.22	82.40	82.95	2 year bond	0.58	0.08
Copper	9,831.50	87.5	AUD/GBP	0.5384	0.5413	0.5375	0.5394	10 year bond	1.62	0.07
Oil (WTI)	76.37	0.4	AUD/NZD	1.0329	1.0402	1.0324	1.0392	Other (10 year yields)		
Coal (thermal)	162.20	8.7	AUD/EUR	0.6412	0.6455	0.6406	0.6428	Germany	-0.30	0.04
Coal (coking)	371.33	0.7	AUD/CNH	4.6287	4.6405	4.6141	4.6151	Japan	0.08	-0.01
Iron Ore	96.30	1.6	USD Index	96.0	96.5	96.0	96.5	UK	0.93	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: US President Biden announced he would be re-nominating Jerome Powell for a second term as the Federal Reserve Chair. Markets responded by lifting demand for equities and the US dollar. However, concerns that Germany and other Western European countries might follow Austria into a lockdown are rising and impacting markets.

Share Markets: The US Dow Jones and S&P 500 index finished higher overnight. The Dow rose 17 points and the S&P 500 finished up 6 points to within a whisker of a new record high. The Nasdaq fell 203 points (or -1.2%). Demand for equities was spurred by the re-nomination of Jerome Powell as Fed Chair.

Yesterday the ASX 200 index dropped 44 points (or -0.6%). There was a movement by Australian investors into more defensive stocks and away from technology and travel-related shares after a spike in European COVID-19 infections. There are fears Germany and other Western European countries may soon follow Austria into a lockdown.

Interest Rates: Interest-rate markets reacted to Powell's renomination by pricing in a ramp-up in Fed tapering and a June rate lift-off. Yields at the front end of the yield curve rose sharply; the US 2-year yield climbed 8 basis points to 0.58%, exacerbated by a lukewarm reception to a \$58 billion auction of 2-year notes. In the euro-dollar futures market, a second US rate hike is now priced

into the November 2022 Fed meeting, up from the December meeting on Friday.

The US 10-year yield also rose significantly, closing 7 basis points higher to 1.62% overnight.

The Australian 3-year government bond yield (futures) rose from 1.14% to 1.20% and the Australian 10-year yield rose from 1.83% to 1.89%.

Markets have the first rate hike from the Reserve Bank fully priced for August 2022. Cash-rate futures have a probability of 80% attached to a rate hike in July.

Foreign Exchange: The US dollar strengthened against every G10 counterpart, as markets priced in a more aggressive unwinding of policy stimulus from the Fed. The AUD/USD moved from an overnight high of 0.7273 to a low of 0.7222, taking out a key support level of 0.7230 on the way. Next support is near the 0.7100 level, which represents the low for the AUD/USD struck during the delta lockdowns in NSW and Victoria.

Commodities: Oil prices firmed modestly overnight. Japanese and Indian government officials are working on ways to release national reserves of crude oil in tandem with the United States and other major economies to dampen prices. The US is considering selling more than 35 million barrels over time from its Strategic Petroleum Reserve. OPEC+ delegates said the group may re-evaluate

planned output increases when they meet next week if countries do tap reserves.

COVID-19: Germany's Chancellor overnight said the latest virus surge in Germany is worse than anything the country has experienced so far. There are fears Germany may soon follow Austria and implement a lockdown.

On Monday, Austria became the first west European country to re-enter lockdown since vaccination began earlier this year.

In other news, Pfizer-BioNTech said their vaccine demonstrated 100% efficacy in adolescents aged 12 to 15 in a longer-term analysis.

Australia: News reports suggest extra spending in the form of personal income tax cuts is being considered by the Federal government. And data released by the independent Parliamentary Budget Office yesterday shows that the Federal budget could be in deficit every year out to at least 2061.

China: Media reports suggest that China's financial regulators told several Chinese banks to issue more loans for property projects, with the aim of easing liquidity strains without restarting housing speculation.

Eurozone: Bank of France's Governor, François Villeroy de Galhau, said the European Central Bank (ECB) is "serious" about ending its emergency bond-buying program in March and may not need to expand regular asset purchases to cover the shortfall. The ECB Governing Council member told Boersen-Zeitung newspaper that each wave of the pandemic has caused less damage than the last, and the continent's high vaccination rates will prove an "economic advantage."

In data overnight, the economic confidence indicator for the euro area deteriorated in November to -6.8, from -4.8 in October. The fall was bigger than anticipated by consensus.

United States: US President Biden nominated the Federal Reserve Chair for another four-year term and elevated Lael Brainard to Vice Chair. Markets had fretted recently that Powell would not be re-nominated and a more dovish Chair nominated. The nominations help maintain consistency as the central bank grapples with rising inflation and the lingering economic impact of the pandemic. Both Powell and Brainard are likely to be confirmed by the Senate.

Existing home sales increased 0.8% in October from the prior month to a seasonally adjusted annual rate of 6.34 million. That was the highest pace since

January, though October sales fell 5.8% from a year earlier when the market was at its peak for this cycle. Demand for housing remains solid amid low availability of homes for sale.

US realtors are now predicting full year sales of over 6 million, which would be the highest number of sales since 2006.

The October Chicago Fed national activity index (CFNAI), released by Federal Reserve Bank of Chicago, rose to 0.76 from -0.18 in September, its highest since April 2022. That follows an improvement seen in other October sentiment surveys, such as ISM and Markit's PMI surveys, which showed economic conditions improving on the month.

Today's key data and events:

NZ Retail Sales Vol. Q3 exp -10.5% prev 3.3% (8:45am)
 AU RBA Head of Domestic Markets Speech (12:05pm)
 AU RBA Dep. Head of Domestic Markets Panel (2:50pm)
 EZ Markit Serv. PMI Nov P exp 53.5 prev 54.6 (8pm)
 EZ Markit Mfg PMI Nov P exp 57.3 prev 58.3 (8pm)
 UK Markit Mfg PMI Nov P exp 57.3 prev 57.8 (8:30pm)
 UK Markit Serv. PMI Nov P exp 58.2 prev 59.1 (8:30pm)
 US Markit Mfg PMI Nov P exp 59.1 prev 58.4 (1:45am)
 US Markit Serv. PMI Nov P exp 59.0 prev 58.7 (1:45am)
 US Richmond Fed Index Nov exp 11 prev 12 (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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