

Morning Report

Friday, 26 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,407	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	closed		10 yr bond	98.12	0.01		90 day BBSW	0.05	0.00	
Japan Nikkei	29,499	0.7%	3 yr bond	98.77	-0.02		2 year bond	0.68	0.02	
China Shanghai	3,756	-0.2%	3 mth bill rate	99.94	-0.01		3 year bond	1.03	0.04	
German DAX	15,918	0.2%	SPI 200	7,411.0	4		3 year swap	1.41	0.02	
UK FTSE100	7,310	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.87	0.01
Commodities (close & change)*			TWI	60.9	-	-	60.9	United States		
CRB Index	closed		AUD/USD	0.7228	0.7209	0.7180	0.7189	3-month T Bill	closed	
Gold	1,788.77	0.2	AUD/JPY	83.24	83.20	82.80	82.94	2 year bond	closed	
Copper	9,898.00	-6.0	AUD/GBP	0.5401	0.5405	0.5386	0.5396	10 year bond	closed	
Oil (WTI Futures)	78.03	-0.4	AUD/NZD	1.0394	1.0503	1.0454	1.0486	Other (10 year yields)		
Coal (thermal)	158.60	-2.6	AUD/EUR	0.6425	0.6431	0.6397	0.6415	Germany	-0.25	-0.02
Coal (coking)	368.92	-0.1	AUD/CNH	4.6180	4.6096	4.5870	4.5926	Japan	0.09	0.00
Iron Ore	98.20	-3.8	USD Index	96.48	96.86	96.65	96.79	UK	0.97	-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 markets were closed for Thanksgiving holiday. Trading volumes were thin in the key global markets and data was sparse.

Share Markets: US share markets were closed overnight for the Thanksgiving Holiday, keeping trading volumes low. Share markets edged up in Europe. The Euro Stoxx 50 closed 0.3% higher, ending six consecutive sessions of falls. Meanwhile, the FTSE 100 ended the day 0.4% higher, hovering 1% below all-time highs.

Yesterday, the ASX 200 recovered from an early fall to finish the day up 0.1%.

In other equity news, a Bloomberg report overnight noted that investors have poured almost US\$900 billion into equity ETFs and long-only funds in 2021, beating the combined total of the past 19 years. Investors have pulled money from stock funds only twice this year — the second time was in the past week.

Interest Rates: The physical US treasury bond market was closed for Thanksgiving, but the futures market was open. The implied US 10-year yield remained around 1.63%. Interest-rate markets are fully priced for the first Fed funds rate hike to occur in August 2022.

The Australian 3-year government bond yield (futures) rose from 1.20% to 1.23%, while the 10-year yield slipped from 1.90% to 1.87%. Interest-

rate markets are fully priced the first RBA rate hike in the cycle to be in August next year. The probability attached to a July move (92%) shows July is almost fully priced.

Foreign Exchange: The major currencies traded in narrow ranges overnight. The USD index traded quietly and held near a 16-month high. The AUD/USD edged down, from an overnight high of 0.7209 to an overnight low of 0.7180 in the New York session. This overnight low is lower than the previous night's low of 0.7184; this is a pattern that has occurred for much of the past 10 trading days, which is a bearish signal for the AUD/USD in the short term. Critical support for the remains AUD/USD near 0.7106.

Commodities: Commodities were mixed overnight. Oil futures slipped after OPEC said the coordinated release of reserves may swell a crude surplus, expected for early next year. Iron ore fell for a third straight session while gold steadied.

COVID-19: Victoria reached its 90% double-dose vaccination milestone yesterday for those aged over 12.

NSW announced changes to its reopening roadmap yesterday, including the removal of density limits and proof of vaccination requirements for businesses. Mask wearing requirements are also set to ease. The changes will come into effect when

NSW reaches its 95% double-dose vaccination milestone, or December 15, whichever earlier.

Australia: New private capital expenditure (capex) fell by 2.2% in the September quarter, as Delta lockdowns in NSW and Victoria led businesses to press the pause button. The drop in capex in NSW was the biggest in six years. Capex also fell in Victoria. Despite the pullback, capex remained above pre-pandemic levels and encouragingly, businesses have bolstered their plans to spend.

Business spending plans were upgraded. Estimate 4 for capex plans over 2021-22 came in at \$138.6 billion. This is an 8.7% increase on Estimate 3 of \$127.6 billion. Using realisation ratios, we estimate that business spending will post a solid increase this financial year.

The economy and business investment are well placed to recover. Pent-up demand is being unleashed. Generous business tax incentives remain in place, business and household balance sheets are robust and fiscal and monetary policy settings remain accommodative.

Eurozone: The minutes of the recent European Central Bank (ECB) meeting showed there was a lot of discussion on inflation. ECB members agreed there were upside risks to inflation in the short term. Staff projections for near term inflation are expected to be upgraded when they are published next month. However, ECB members said there was more uncertainty about the outlook for 2023 and 2024. ECB members said this elevated uncertainty meant they should maintain “optionality” on their future bond purchases for as long as possible, so they can respond if inflation either drops back below their target or stays above. Eurozone inflation hit a 13-year high of 4.1%, well above the ECB’s 2% target.

The minutes flagged that the Pandemic Emergency Purchase Programme (PEPP) could be phased out in steps, which should be confirmed at next month’s ECB meeting.

The final GDP outcome for Germany was unchanged at 2.5% in the year to Q3, although the quarterly growth rate was revised slightly lower to 1.7%.

Japan: The Bank of Japan's newest board member, Junko Nakagawa, sees a gradual emergence of upward price trends. She said consumer prices “don't look like they will stay around zero forever”.

New Zealand: The trade deficit shrank to \$1.3bn in October, down from a record \$2.2bn in September. Exports strengthened over the month, to \$5.4bn, from a revised \$4.4bn in September. Meanwhile,

imports continued to surge, growing for a sixth consecutive month. Imports reached \$6.6bn in October, surpassing the previous record set in September. The annual trade deficit for the year ended October was \$4.9bn.

United States: There was no key data released overnight with the Thanksgiving Holiday.

Today's key data and events:

NZ ANZ Consumer Confidence Nov prev 98.0 (8am)

AU Retail Sales Oct exp 1.0% prev 1.3% (11:30am)

EZ M3 Money Supply Oct exp 7.4% prev 7.4% (8pm)

CH Industrial Profits Oct y/y prev 16.3% (12:30pm Sat 27 Nov)

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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