

Morning Report

Monday, 29 November 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)				Interest rates (close & change)		
			Last	Overnight Chg		Australia			
S&P/ASX 200	7,279	-1.7%					90 day BBSW	0.05	0.00
US Dow Jones	34,899	-2.5%	10 yr bond	98.32	0.07		2 year bond	0.66	-0.02
Japan Nikkei	28,752	-2.5%	3 yr bond	98.98	0.08		3 year bond	0.92	-0.11
China Shanghai	3,735	-0.6%	3 mth bill rate	99.95	0.00		3 year swap	1.24	-0.19
German DAX	15,257	-4.2%	SPI 200	7,166.0	-104		10 year bond	1.74	-0.13
UK FTSE100	7,044	-3.6%	FX Last 24 hrs	Open	High	Low	Current		
Commodities (close & change)*			TWI	60.9	-	-	60.4	United States	
CRB Index	226.7	-11.6	AUD/USD	0.7189	0.7198	0.7113	0.7143	3-month T Bill	0.04
Gold	1,802.59	13.7	AUD/JPY	82.94	83.02	80.48	81.08	2 year bond	0.50
Copper	9,578.00	-320.0	AUD/GBP	0.5396	0.5405	0.5328	0.5361	10 year bond	1.47
Oil (WTI futures)	68.15	-10.2	AUD/NZD	1.0486	1.0493	1.0433	1.0461	Other (10 year yields)	
Coal (thermal)	160.05	-6.6	AUD/EUR	0.6415	0.6423	0.6285	0.6294	Germany	-0.34
Coal (coking)	295.50	4.8	AUD/CNH	4.5926	4.5983	4.5490	4.5637	Japan	0.07
Iron Ore	97.95	2.1	USD Index	96.79	96.80	95.75	96.09	UK	0.83

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: Rising concerns about the new COVID-19 variant, Omicron, led investors to flee to safer haven assets on Friday. Investors are concerned the new variant will dent the global growth outlook.

The VIX volatility index surged 10 points to 28.6, reflecting the decline in appetite for risk among investors. The VIX is at its highest level since February.

Trading volumes were still thin and there were some big moves in markets.

Equity markets dropped sharply across the globe as a result. The S&P 500 index posted its biggest one-day percentage drop since February. European share markets fell harder.

Oil had its biggest daily percentage fall in 7 months.

The US 2-year and 10-year bond yields recorded their biggest daily falls since March.

The USD was sold off heavily. The AUD/USD lacked direction and the key support level of 0.7106 remained elusive.

Share Markets: Worries about the new COVID-19 variant led investors to flee stocks and flock into bonds. Global share markets were a sea of red, reflecting the risk-off mood among investors.

The S&P 500 share market index dropped 2.3%, the biggest daily percentage drop since late February.

The Dow Jones fell 2.5% - the biggest percentage daily fall in 13 months.

The falls in European share markets were much deeper. The Euro Stoxx 50 index fell 4.7%, the German Dax dropped 4.2% and the UK FTSE 100 fell 3.6%.

On Friday, the ASX 200 index was 128 points lower (or -1.7%). It is set for a further sharp sell off today.

Interest Rates: Investors flocked to government bonds, as worries about the new variant mounted. Bond prices lifted sharply (i.e. bond yields fell). The US 2-year bond yield closed 14 basis points lower. It is the biggest daily decline since March. The US 10-year yield plunged 16 basis points to 1.47% - also the sharpest fall since March and the lowest close in 2½ weeks.

Interest-rate markets are fully pricing the first Fed funds rate hike to be in August 2022, pushed back from July in the previous trading session.

The Australian 3-year government bond yield (futures) fell from 1.10% to 1.02%, while the 10-year yield fell from 1.80% to 1.68%.

Interest-rate markets are still expecting the first rate hike from the RBA to occur in August next year. However, the probability has wound back since news of the Omicron variant emerged last week. The probability of an RBA rate hike in August was as high as 142% last week but by Friday it was down to

122% (using cash-rate futures).

Foreign Exchange: The US dollar index sold off, as investors rotated into safer-haven currencies and pricing for the first Fed rate hike was pushed back. The USD index fell from a Friday high of 96.80 to a one-week low of 95.75. USD/CHF fell from 0.9330 to 0.9217, as the traditional safe-haven currency, the Swiss franc, benefitted from investment inflows. The EUR/USD also appreciated.

The AUD/USD sold off in Asian trade on Friday, falling from 0.7198 to a 3-month low of 0.7113, but found support when Europe opened. The AUD/USD lifted off 0.7113 to a high of 0.7156 in Europe before selling off to try to retest 0.7113 in New York. It managed to get to as low as 0.7115 in New York before recovering some ground again.

The price action in the last two trading sessions suggest the AUD/USD has lost some of its aggression as it has approached key support at 0.7106, which represents the low AUD/USD struck during the Delta lockdowns. A clean break under this support would suggest a more bearish near term outlook for the AUD/USD. But if the AUD/USD can keep its head above this level, then the price action could still be consistent with consolidation for the AUD/USD since its rapid rise from 0.5510 on 19 March 2020 to 0.8007 on 25 February 2021.

Commodities: Oil tumbled more than US\$10 a barrel on Friday. In daily percentage terms, the fall was 13.1% - the biggest in 7 months. The fall dragged the West Texas Intermediate price below its 200-day moving average for the first time since November 2020.

The initial drop was driven by virus fears but a host of technical factors, including anaemic post-Thanksgiving holiday volumes, exacerbated the sell off. The rout could lead OPEC+ to ditch plans to raise output when it meets on Wednesday. It's leaning toward abandoning a plan for a modest production hike scheduled for January, according to delegates.

COVID-19: The World Health Organisation (WHO) on Friday classified the B.1.1.529 variant, or Omicron, as a SARS-CoV-2 "variant of concern," saying it may spread more quickly than other forms of COVID-19.

The new Omicron COVID-19 variant is raising concern worldwide given the number of mutations, which might help it spread or even evade antibodies from prior infection or vaccination.

The biggest worry remains whether protection from COVID-19 vaccines will hold up. And, will people

previously infected with COVID-19 be immune from infection with Omicron. Other questions are whether it is more transmissible than previous strains and whether it causes more severe reactions. Some scientists and experts say it could be several weeks before these questions can be fully answered.

First discovered in South Africa, it has also now been detected in Britain, Germany, Italy, the Netherlands, Denmark, Belgium, Botswana, Israel, and Hong Kong.

The Netherlands identified 13 omicron infections Sunday, suggesting it already has a strong foothold in Europe. Omicron has emerged as many European countries are already battling a surge in COVID-19 infections, with some reintroducing restrictions on social activity to try to stop the spread.

In Australia, health officials yesterday said two passengers who arrived in Sydney from southern Africa had tested positive for the variant.

Symptoms linked to it have been mild so far, according to an adviser to the South Africa government and the Pretoria doctor who first sounded the alarm about the new strain. Moderna's chief medical officer said he suspects it may elude current vaccines, and if so, a reformulated shot could be available early in the new year.

Many countries have now imposed travel bans or curbs on southern Africa to try to stem the spread. In the most far-reaching effort to keep the variant at bay, Israel announced late on Saturday it would ban the entry of all foreigners and reintroduce counter-terrorism phone-tracking technology to contain the spread of the variant. The ban would last 14 days.

Financial markets dived on Friday as investors worried that the variant could stall a global recovery.

Australia: Retail spending spiked 4.9% in October, as pent-up demand was unleashed after the lifting of lockdowns across NSW, Victoria and the ACT. It was the fastest monthly gain in eleven months and the second monthly increase in a row. It was also a lot stronger than consensus expected.

The strong bounce in retailing over the past two months means retail trade is within a whisker of where it was in May, prior to the Delta outbreak.

October's retailing bounce was driven by a 13.3% surge in NSW. This gain is the largest since May 2020, after the end of the national lockdown, and the second largest on record. Spending also

rebounded in Victoria, by 3.0% in the month, although lockdowns lifted later in Victoria.

Consumers still feel buoyant. Interest rates are low. Households have also accumulated large savings buffers, which are set to be unleashed over the coming months. However, there is an emerging risk the new variant of COVID-19 curtails some optimism among consumers.

China: Profits of China's major industrial firms maintained sound growth momentum in the first 10 months of the year, as industrial production and business operations continued to recover. Industrial firms with annual business revenues of at least 20 million yuan registered a solid annual gain in profits of 42.2% in the January to October period. In October alone, the annual growth rate rose to 24.6%, up from 16.3% in September.

New Zealand: Consumer confidence fell in November for a fifth straight month, plunging to its lowest level since April 2020. The Roy Morgan consumer confidence index dropped 1.4% to 96.6 after a 6.2% decline in October. Inflation expectations also pulled back in November.

United States: Federal Reserve Bank of Atlanta President Raphael Bostic played down the new variant's risk to the US economy and said he was open to a faster tapering pace to keep inflation in check. He noted there is a lot of momentum in the economy and added it is certainly possible the Fed could hike rates twice in 2022, stressing the Fed is not going to let inflation get out of control. He sees late Q1 or early Q2 as a possible timeframe for ending quantitative easing.

US President Joe Biden also said he discussed inflation with Fed officials, and that he's confident Jerome Powell is focused on rising prices.

Shoppers returned to US stores on Black Friday but traffic was 28% below pre-pandemic levels, according to Sensormatic Solutions. Visits climbed 48% from a year ago. As for how much spent online: Adobe estimates \$8.9 billion, which is at the low end of expectations and slightly less than last year.

Today's key data and events:

AU Business Indicators Q3 (11:30am)

Company Profits Q3 exp 5.0% prev 7.1%

Inventories Q3 exp -1.1% prev 0.2%

EZ Consumer Confidence Nov Final prev -6.8% (9pm)

EZ Economic Conf. Nov exp 117.8 prev 118.6 (9pm)

EZ Industrial Confidence Nov exp 14.0 prev 14.2 (9pm)

US Pending Home Sales Oct exp 0.7% prev -2.3% (2am)

US Dallas Fed Index Nov exp 17.0 prev 14.6 (2:30am)

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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