Morning Report

Monday, 6 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,241	0.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,580	-0.2%	10 yr bond	98.45		0.07		90 day BBSW	0.06	0.00
Japan Nikkei	28,030	1.0%	3 yr bond	98.97		0.04		2 year bond	0.67	-0.01
China Shanghai	3,781	0.9%	3 mth bill rate	99.95		0.00		3 year bond	0.90	-0.03
German DAX	15,170	-0.6%	SPI 200	7,260.0		11		3 year swap	1.28	-0.11
UK FTSE100	7,122	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.61	-0.07
Commodities (close & change)*			TWI	59.8	-	-	59.7	**United States**		
CRB Index	220.6	1.1	AUD/USD	0.7090	0.7099	0.6993	0.7007	3-month T Bill	0.04	0.00
Gold	1,783.29	14.6	AUD/JPY	80.24	80.35	78.79	79.07	2 year bond	0.59	-0.03
Copper	9,489.00	-104.0	AUD/GBP	0.5331	0.5338	0.5286	0.5295	10 year bond	1.34	-0.10
Oil (WTI futures)	66.26	-0.2	AUD/NZD	1.0404	1.0421	1.0356	1.0364	**Other (10 year yields)**		
Coal (thermal)	151.50	-2.6	AUD/EUR	0.6275	0.6282	0.6184	0.6192	Germany	-0.39	-0.02
Coal (coking)	316.00	1.5	AUD/CNH	4.5184	4.5237	4.4578	4.4668	Japan	0.05	-0.01
Iron Ore	103.95	2.4	USD Index	96.13	96.45	95.97	96.12	UK	0.75	-0.06

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: Investors' appetite for risk plunged on Friday night. It was reflected in a spike in the VIX volatility index, which rose 2.7 points to close at a 13-month high of 30.7. It was also reflected in the sharp sell off in equities and cryptocurrencies and the lift in demand for government bonds.

Fears about Omicron and its implications for the outlook were fanned and contributed to the spike in risk aversion. A weaker-than-expected US payrolls result also led to concerns about the outlook.

There were also big moves in currencies. Notably, the AUD fell to a 13-month low of under 70 US cents.

Share Markets: The spike in uncertainty and risk aversion led investors to move funds out of equities. Global share markers were a sea of red on Friday night. The Dow Jones shed 60 points (or -0.2%) and the S&P 500 fell 39 points (or -0.8%). The Nasdaq experienced a sharper sell off, declining 296 points (or -1.9%). In Europe, the Euro Stoxx lost 28 points (or -0.7%).

Interest Rates: The rise in risk aversion spurred investors to lift demand for the safety of government bonds, pushing bond prices higher (and bond yields lower). The US yield curve flattened, as long-term rates fell by more than short-term rates. The US 2-year yield fell 3 basis points and the US 10-year bond yield dropped 10 basis points. It was the largest closing decline in the US 10-year bond yield in 5 months.

The Australian 3-year (futures) yield fell 4 basis points to 1.08%. The 10-year futures yield fell 7 basis points to 1.63%. The first Reserve Bank rate hike is fully priced for August 2022.

Foreign Exchange: The AUD/USD broke under the psychological level of 0.7000 to record a 13-month low of 0.6993 on Friday night. Since mid November, we have flagged in this morning report that 0.7106 was a key level to watch; on 29 November we warned that if the AUD/USD broke under 0.7106 it would spell a more bearish outlook for the AUD in the short term. The AUD fell under this 0.7106 level on 30 November and since then has remained subject to selling pressures that have taken it lower. The risks suggest the AUD/USD will move lower in the near term and towards 0.6800.

Omicron concerns remain elevated and are tarnishing world-growth prospects and the outlook for commodities, which is reducing demand for the AUD. Furthermore, markets still expect the US Federal Reserve to hike sooner and by more than the Reserve Bank.

The USD index strengthened in the European trading session and early part of the New York session on Friday, but lost ground after the weaker-than-expected payrolls result was published.

In other developments, the spike in risk aversion led to a very sharp sell off in Bitcoin. It plunged by more than 20% since Friday's close of US share markets. The decline brought it down to around US$42,290 at one point, well below its record high of close to US$69,000.

Commodities: Gold rose on the risk-off mood while copper and other base metal prices slipped. Oil also fell.

Australia: There were no major economic releases in Australia on Friday.

China: The Caixin services purchasing managers' index (PMI) edged down to 52.1 in November amid rising inflationary pressures and small-scale outbreaks of COVID-19. This result follows a reading of 53.8 in October. Despite the fall, the index remains in expansionary territory for a third consecutive month.

Evergrande's next test is set for later today when a 30-day grace period ends on two dollar bond interest payments that were initially due November 6: $41.9 million for a note maturing in 2022 and $40.6 million for a 2023 security. Evergrande said it plans to "actively engage" with offshore creditors on a restructuring plan.

Eurozone: Retail sales jumped 0.2% in October in the eurozone, following a revised 0.4% fall in September. The result came in just below consensus estimates of a 0.3% rise. Retail sales are 1.4% higher than a year earlier, however, ongoing COVID-19 concerns in the region are likely to weigh on spending over the coming months.

United States: The US economy created far fewer jobs than expected in November, in a sign that hiring started to slow even ahead of the new Omicron threat. Non-farm payrolls increased by just 210,000 for the month compared with Bloomberg consensus expectations for a gain of 550,000. October's result follows a rise of 546,000 payrolls in the previous month.

However, the unemployment rate fell more sharply than anticipated, despite the participation rate rising to 61.8% - its highest level since March 2020. It dropped from 4.6% in September to 4.2% in October. Consensus expectations were for a fall to 4.5% only.

A more encompassing measure of unemployment that includes discouraged workers and those holding part-time jobs for economic reasons dropped even more, tumbling to 7.8% from 8.3%. The household survey painted a brighter picture, with an addition of 1.1 million jobs as the labour force increased by 594,000.

The report is really a tale of two surveys. The payroll survey shows a significant deceleration in job growth. The separate household survey shows accelerating employment gains, workers returning to the labour force, and low levels of involuntary part-time work. The underlying momentum of the labour market is still firm, but October's data reveals greater uncertainty now underlines the labour market.

The ISM services index jumped to 69.1 in November, from 66.7 in October. It is the highest result since 1997 and was stronger-than-expected result. The result suggests activity in the American services sector is expanding. And the detail revealed that activity rose to 74.6 (prior 69.8), employment rose to 56.5 (51.6) and orders remained high at 69.7. Prices paid fell to 82.3 from 82.9.

The final reading for durable goods orders was revised up to a fall of 0.4%, from a decline of 0.5% in October. It is the second consecutive monthly fall in durable goods orders, as manufacturers are confronted by higher input costs.

Finally, factory orders in October lifted 1.0%, above Bloomberg consensus expectations for a rise of 0.5%.

Today's key data and events:

AU MI Inflation Nov y/y prev 3.1% (11am)

AU ANZ Job Ads Nov prev 6.2% (11:30am)

EZ Ger. Factory Orders Oct exp -0.2% prev 1.3% (6pm)

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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