

Morning Report

Wednesday, 8 December 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,314	0.9%			Last	Overnight Chg			Australia	
US Dow Jones	35,720	1.4%	10 yr bond	98.29		-0.06			90 day BBSW	0.06 0.00
Japan Nikkei	28,456	1.9%	3 yr bond	98.81		-0.06			2 year bond	0.68 0.04
China Shanghai	3,768	0.2%	3 mth bill rate	99.95		0.00			3 year bond	0.96 0.08
German DAX	15,814	2.8%	SPI 200	7,364.0		33			3 year swap	1.40 0.10
UK FTSE100	7,340	1.5%	FX Last 24 hrs	Open	High	Low	Current		10 year bond	1.65 0.07
Commodities (close & change)*			TWI	59.3	-	-	59.7		United States	
CRB Index	225.7	2.5	AUD/USD	0.7047	0.7123	0.7040	0.7118		3-month T Bill	0.06 0.01
Gold	1,785.00	6.3	AUD/JPY	79.97	80.93	79.86	80.79		2 year bond	0.69 0.05
Copper	9,616.50	54.5	AUD/GBP	0.5315	0.5381	0.5307	0.5376		10 year bond	1.48 0.04
Oil (WTI futures)	71.37	1.9	AUD/NZD	1.0434	1.0502	1.0430	1.0487		Other (10 year yields)	
Coal (thermal)	150.15	5.6	AUD/EUR	0.6246	0.6333	0.6239	0.6318		Germany	-0.38 0.01
Coal (coking)	344.67	14.0	AUD/CNH	4.4926	4.5329	4.4876	4.5302		Japan	0.06 0.01
Iron Ore	114.70	2.2	USD Index	96.29	96.59	96.17	96.32		UK	0.73 -0.01

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: Major market equity prices and bond yields rose on optimism that Omicron will not derail global growth. The VIX volatility index dropped 6 points to 21, although it remains above the levels preceding the announcement of the Omicron variant.

Share Markets: All 3 major US indices jumped higher. Tech stocks led the gains, the NASDAQ up 3.0%. The Dow Jones and the S&P 500 finished up 1.4% and 2.0%, respectively.

The ASX 200 rose yesterday for a second consecutive session. The index finished up 0.9% and futures are pointing to a rise on open this morning.

Interest Rates: The improvement in sentiment led to a selloff in bonds, as investors returned to riskier asset classes. The US 10-year jumped 4 basis points to 1.48% and the 2-year yield rose 5 basis points to 0.69%.

The Australian 3-year government bond yield (futures) rose from 1.12% to 1.20%, while the 10-year government bond yield (futures) jumped to 1.72% from 1.65%. Market pricing for the first rate hike from the Reserve Bank (RBA) was brought forward yesterday following the RBA's policy meeting. The first hike is now fully priced for August next year, based on interbank cash rate futures.

Foreign Exchange: The AUD/USD rose for a second consecutive session following a 13-month low on Friday night. The pair move steadily higher back

over the 0.7100 handle from a low of 0.7040, and is currently trading at 0.7118.

The USD was broadly unchanged against a basket of G-10 peers. The USD index rose from a low of 96.2 to a high of 96.6, before settling around 96.3.

Commodities: There was a broad-based rise in commodities prices overnight. Oil and iron-ore led the gains. West Texas Intermediate (WTI) oil futures rose. Gold and natural gas also firmed.

COVID-19: South Africa is beginning to report a rise in hospitalisations, as the Omicron variant takes hold. However, early reports suggest that Omicron may cause less severe illness than the Delta variant.

Australia: The Reserve Bank (RBA) left key policy settings unchanged this month, as widely expected. The RBA remains upbeat on the outlook for growth, noting that the economy is recovering from the Delta lockdowns. In fact, the RBA brought forward when it expects the economy to return to its pre-Delta growth path to the first half of 2022 (previously mid 2022).

The RBA flagged that a new source of uncertainty is the emergence of the Omicron strain, although "it is not expected to derail the recovery".

Yesterday's meeting was the last until February 2022 when the bond buying program will be reviewed. The statement reiterated that the future of the program will depend on several factors,

including the actions of other central banks.

Our core expectation, for now, remains that the RBA will announce a further reduction in the rate of bond purchases in February, before it is wound up by the middle of next year.

The RBA repeated that it “is prepared to be patient”. We stand by our view the cash rate will first increase in early 2023.

The ABS residential property price index – which measures the weighted average property price across Australia’s eight capital cities – rose 5.0% over the September quarter. The index is now 21.7% higher than a year earlier. Every capital city recorded dwelling price growth over the quarter, led by Hobart (8.2%), Sydney (6.2%) and Brisbane (6.1%).

China: The trade surplus narrowed to US\$71.7bn in November, from US\$84.5bn in October. Imports and exports rose to record high levels, growing 31.7% and 22.0% respectively over the year to November. The export result reflects strong global demand for Chinese goods, which remained consistent throughout the pandemic. The surge in imports came in well above consensus expectations, boosted by domestic energy demand, amid power shortages, and a strong rebound in commodity imports.

Evergrande edged closer to default, as the developer failed to make coupon payments to bondholders yesterday. The coupon payments were already subject to a monthlong grace period. Focus will now turn to whether China’s government will step in to limit the fallout.

Eurozone: Quarterly GDP growth was finalised at 2.2% for the September quarter, in line with the preliminary reading. However, annual GDP growth was revised up slightly, growing 3.9% over the year to September 2021. Despite the rise, output remains 0.3% below its pre-pandemic level.

Employment figures were finalised broadly in line with preliminary estimates. Employment jumped 0.9% in the September quarter, to be up 2.1% over the year.

The ZEW survey, a measure of investor confidence in Germany, fell in December. The gauge edged down to 29.9 from 31.7 in November, amid growing COVID-19 infections in the region.

German industrial production increased by 2.8% in October, following a 0.5% fall in September. The rise in production beat consensus estimates of a 1.0% lift and could suggest that supply chain

constraints may be starting to ease.

United States: The trade deficit narrowed in October, for the first time since July. The deficit narrowed to \$67.1bn from \$81.4bn in September. The result was driven by a sharp rise in exports, up 8.1% in October, to the highest level on record. Stronger shipments of industrial supplies such as crude oil contributed to rising exports.

Joe Biden and Vladimir Putin met over video last night, to discuss tensions surrounding the Ukrainian border. The US has warned that it will respond with a strong economic response should Russia escalate military action against the Ukraine.

Today’s key data and events:

JN Current Account Oct exp ¥1,274.9bn prev ¥1,033.7bn (10:50am)

JN GDP Q3 Final exp -0.8% prev -0.8% (10:50am)

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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