Morning Report

Monday, 6 November 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,978	1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,061	0.7%	10 yr bond	4.69		-0.05		90 day BBSW	4.35	0.00
Japan Nikkei	31,950	1.1%	3 yr bond	4.25		-0.05		2 year bond	4.34	-0.02
China Shanghai	3,178	0.7%	3 mth bill rate	4.41		0.00		3 year bond	4.28	-0.03
German DAX	15,189	0.3%	SPI 200	7,000.0		14		3 year swap	4.44	-0.01
UK FTSE100	7,418	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.72	-0.07
Commodities (close & change)			TWI	60.9	-	-	60.9	**United States**		
CRB Index	281.8	-0.5	AUD/USD	0.6434	0.6518	0.6420	0.6508	3-month T Bill	5.24	-0.03
Gold	1,992.65	6.9	AUD/JPY	96.81	97.32	96.58	97.15	2 year bond	4.84	-0.15
Copper	8,109.70	30.2	AUD/GBP	0.5273	0.5288	0.5254	0.5259	10 year bond	4.57	-0.09
Oil (WTI futures)	80.51	-1.9	AUD/NZD	1.0909	1.0920	1.0850	1.0857	**Other (10 year yields)**		
Coal (thermal)	130.00	-2.2	AUD/EUR	0.6058	0.6073	0.6048	0.6065	Germany	2.65	-0.07
Coal (coking)	326.67	0.0	AUD/CNH	4.7142	4.7535	4.7062	4.7451	Japan	0.93	0.00
Iron Ore	122.75	-0.2	USD Index	106.14	106.22	104.94	105.07	UK	4.29	-0.09

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A softer-than-expected US payrolls report bolstered expectations that the Fed is done hiking rates. Treasuries fell sharply across the curve, led by the short end. US equities finished in the green to post their strongest weekly gain of 2023. The US dollar softened.

Share Markets: US equities finished the week in the green as encouraging economic data boosted sentiment. The S&P 500 rose 0.9% on Friday to close the week 5.9% higher – the strongest weekly gain of 2023. The Dow Jones and the NASDAQ rose 0.7% and 1.4%, respectively ending the week up 5.1% and 6.6% each.

The ASX 200 rallied 1.1% on Friday to cap off a 2.2% weekly gain. Futures are pointing to a strong open this morning.

Interest Rates: US treasury yields fell sharply across the curve as local data reinforced expectations the Fed is done hiking. The policy sensitive 2-year yield dropped a massive 15 basis points to 4.84%, its lowest close since August. The 10-year yield shed 9 basis points to 4.57% after falling as low as 4.48% earlier in trade.

Interest rate markets now see just a 10% chance of another rate hike from the Fed this cycle. Rate cuts are fully priced for June 2024.

Aussie bond futures followed the lead from the treasury market. The 3-year and the 10-year (futures) yield both fell 5 basis points to 4.25% and 4.69%, respectively.

Interest rate markets are pricing just shy of a 50% chance of a rate hike from the Reserve Bank (RBA) tomorrow. Markets still see the need for at least one more rate hike, with the risk of a second sitting at around 60%.

Foreign Exchange: The US dollar fell against every G-10 currency, pushing the DXY to its lowest level in over six weeks. The DXY traded between a high of 106.22 to a low of 104.94 and is currently sitting around 105.07.

The Aussie dollar leapt higher on the weaker Greenback. The AUD/USD pair rose from a low of 0.6420 to a 9-week high of 0.6518, taking out key resistance around 0.6450 and 0.6500. The pair is currently trading near 0.6508. Price action above the 0.6500 level will be important for considering whether the Aussie can build some further strength near-term. The RBA meeting tomorrow presents a key risk which could confirm or reject the sudden move higher.

The British Pound hit a 6-week high against the US dollar, while the euro rose to a 7-week high against the Greenback.

Commodities: The price of oil eased but remained above the US$80 per barrel level. News that Saudi Arabia and Russia will stick with planned oil supply curbs totalling 1.3 million barrels per day until the end of the year may support prices when trading resumes today.

Australia: Retail spending volumes, which exclude the impact of higher prices, rose 0.2% in the September quarter. This snapped a string of three consecutive quarterly falls in real retail spending. Despite the improvement, quarterly growth remains considerably slower than the pre pandemic average of around 0.6%.

The improvement in the September quarter was driven by heavy discounting, unusually warm weather, and special events such as the FIFA women's world cup.

However, population growth was by far the biggest contributor. In fact, the ABS' figures suggest that the population could have expanded by around 337k in the 6-months since the March quarter – the latest available population statistics. That's almost double the average pace recorded since the turn of the millennium.

Reflecting the rapid increase in the population, per-capita retailing volumes tumbled 4.0% over the year to the September quarter – the fastest fall ever recorded.

Retail price inflation continued to slow. Retail prices rose 0.7% in the quarter and 3.7% in annual terms. This is considerably down on the peak of 7.6% recorded in the December quarter of 2022. Solid progress on retail price inflation is likely to reflect ongoing discounting activity.

The consumption outlook remains incredibly weak. However, record population growth is more than offsetting this weakness and it is unlikely to dry up anytime soon. This will continue to support aggregate spending, though per-capita spending could continue to plumb fresh lows.

China: The Caixin services purchasing managers' index (PMI) edged up to 50.4 in October from 50.2 in September. Services activity remains weak, however, a deeper contraction in activity looks to have been largely avoided for now as conditions begin to stabilise.

Eurozone: The unemployment rate drifted higher in September, rising to 6.5% from 6.4% in August. The unemployment rate has tick-tacked between 6.4% and 6.5% since May making it difficult to conclude a clear softening in the labour market is underway.

United States: Non-farm payrolls rose 150k in October, falling short of expectations for a 180k gain. This was the softest monthly pace since June and represents a step down in the underlying pace of employment growth.

The unemployment rate ticked up to 3.9% in October from 3.8% in both September and August. The rise in unemployment largely reflects growth in the labour force outpacing gains in employment, rather than widespread job shedding.

The softening in labour market conditions appears to be driving a moderation in wages growth. Average hourly earnings rose 0.2% in October, the softest monthly increase since March 2021. In annual terms, hourly earnings rose 4.1%, slowing from a revised increase of 4.3% in September.

The employment report will be encouraging for the Fed and will bolster expectations that the current level of interest rates is sufficiently restrictive to bring inflation down.

The services PMI was finalised at 50.6 in October slightly down on the flash reading of 50.9. The services PMI has held between 50-and-51 since August suggesting services activity is stalling. This conflicts somewhat with recent consumption data, which has pointed to continued robust growth in household spending.

Today's key data and events:

AU MI Inflation Oct y/y prev 5.7% (11am)
AU ANZ Job Ads Oct prev –0.1% (11:30am)
EZ Ger. Factory Orders Sep exp -1.5% prev 3.9% (6pm)
EZ Markit Serv. PMI Oct Final exp 47.8 prev 47.8 (8pm)
EZ Sentix Investor Conf. Nov exp -22.4 prev -21.9 (8:30pm)

Times are AEST. 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.

Jameson Coombs, Economist
Ph: +61 401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@banksa.com.au
+61 401 102 789