

Morning Report

Monday, 13 November 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,976	-0.5%			Last	Overnight Chg		Australia		
US Dow Jones	34,283	1.2%	10 yr bond	4.64	0.01	90 day BBSW	4.41	0.01		
Japan Nikkei	32,568	-0.2%	3 yr bond	4.25	0.00	2 year bond	4.30	0.07		
China Shanghai	3,186	-0.5%	3 mth bill rate	4.44	0.02	3 year bond	4.24	0.08		
German DAX	15,234	-0.8%	SPI 200	7,016.0	24	3 year swap	4.44	0.00		
UK FTSE100	7,361	-1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.62	0.09
Commodities (close & change)			TWI	60.4	-	-	60.4	United States		
CRB Index	273.4	0.0	AUD/USD	0.6367	0.6372	0.6339	0.6360	3-month T Bill	5.25	-0.02
Gold	1,940.20	-18.3	AUD/JPY	96.38	96.42	96.04	96.38	2 year bond	5.06	0.04
Copper	7,956.49	-115.5	AUD/GBP	0.5211	0.5212	0.5198	0.5204	10 year bond	4.65	0.03
Oil (WTI futures)	77.17	1.4	AUD/NZD	1.0794	1.0808	1.0779	1.0788	Other (10 year yields)		
Coal (thermal)	129.50	0.8	AUD/EUR	0.5971	0.5972	0.5941	0.5952	Germany	2.72	0.07
Coal (coking)	300.00	3.0	AUD/CNH	4.6487	4.6506	4.6315	4.6495	Japan	0.85	0.01
Iron Ore	128.15	1.3	USD Index	105.94	106.01	105.74	105.80	UK	4.34	0.06

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 lift in US inflation expectations and Moody's cutting the US credit outlook to negative did little to dampen demand investor appetite for risk. US share markets lifted on Friday night with the broader index hitting a 7-week high and the US bond market sold off.

Share Markets: US share markets extended their rally on Friday. The S&P 500 added 1.6%, rising to a 7-week high. The Dow lifted 1.2% and the Nasdaq rose 2.1%.

The ASX 200 index lost ground on Friday, but it follows a rally from the end of October that added 3.6% to the index.

Interest Rates: US bond yields moved higher on Friday (i.e. bond prices sold off) after US Fed member Mary Daly said the Fed might have to hike again and US inflation expectations rose. The US 2-year yield increased 4 basis points and the 10-year yield rose 3 basis points.

Interest-rate markets have a 28% probability attached to another rate hike from the Fed.

In Australia, markets have a probability of 48% of a further rate hike from the Reserve Bank by May next year.

Foreign Exchange: The AUD/USD was in a consolidative phase on Friday, trading a tight range of 0.6339-0.6372. It follows the sell off in the AUD/USD from a near 3-month high of 0.6523 on 6 November, just ahead of the Reserve Bank's rate

hike on 7 November, which accelerated selling of the AUD.

Commodities: Oil rose in Friday's trade with oil analysts speculating Saudi Arabia will extend oil supply cuts into 2024.

Australia: The November Statement on Monetary Policy (SoMP) confirms that the Reserve Bank (RBA) perceives the underlying resilience of the Australian economy as the key source of the inflation 'surprise', which prompted a 25-basis point hike from the Board last week.

The outlook for inflation has been revised higher, particularly in the near term, as inflation has proved to be stickier than the RBA previously expected. The story is a familiar one – goods inflation continues to moderate as supply-chain disruptions ease. However, services prices, which are more impacted by domestic factors, are showing signs of being sticky.

The RBA's forecasts reflect a more optimistic outlook for the Australian economy. This is partly a mechanical upgrade from the recent and current resilience of the economy, but the RBA has also carried this momentum forward, expecting stronger growth in both 2023 and 2024.

Employment growth has been revised higher in line with a stronger-than-expected economy and faster population growth. The unemployment rate is expected to rise by less than in the previous SoMP,

slowly rising to 4.3% by the end of 2025, from its current rate of 3.6%.

A gradual easing in the labour market is expected to be evident in broader measures of slack, including underutilisation and hours worked. Average hours are expected to fall as employers demand fewer hours from their employees to adjust to weaker demand, rather than through outright job losses. This adjustment is consistent with our expectation.

There remains very little leeway for inflation to surprise to the upside if the RBA is to succeed in its objective of bringing inflation back to target by the end of 2025. As a result, another interest rate hike remains can't be ruled out and is a possibility.

Several more days of interruptions from cyberattacks are expected to continue to impact Australia's four biggest ports. DP World's IT system remains disconnected from the Internet, although the firm says it has made progress restoring freight operations.

Eurozone: European Central Bank (ECB) President Lagarde said that keeping the deposit rate at 4.00% should be enough to tame inflation, but officials will consider raising borrowing costs again if they need to.

United States: Consumer sentiment fell for a fourth straight month in November and households' expectations for inflation rose again. The University of Michigan's preliminary reading of its consumer sentiment index dropped to 60.4, the lowest level since May, from October's final reading of 63.8. The consensus forecast had been for the index to be little changed at 63.7.

The survey's preliminary gauge of current conditions fell to 65.7 from last month's final level of 70.6, while the expectations index slid to 56.9 from 59.3 in October. Like the headline index, both sub-indexes were the lowest since May.

Consumers' outlook for inflation in the year ahead rose for a second month to a 7-month high of 4.4%. It follows a large increase between September's 3.2% reading and October's 4.2% reading.

Meanwhile, over a 5-year horizon, consumers expect inflation to average 3.2%, up from 3.0% in October and the highest since March 2011.

Moody's cut the US credit outlook to negative, citing increased downside risks to its fiscal strength. Government deficits will remain "very large" absent effective measures to cut government spending or increase revenues, the agency said.

Today's key data and events:

NZ Perf. of Services Index Oct prev 50.7 (8:30pm)
 UK Rightmove House Prices Nov prev 0.5% (11:01am)
 JN Producer Prices Oct exp -0.0% prev -0.3% (2:30pm)
 AU CBA Household Spending Oct prev 0.5% (2:30pm)
 US NY 1-Yr Ahead Inflation Expectations Oct prev 3.67% (3am)

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.

Besa Deda, Chief Economist

Ph: +61 404 844 817

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

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