bankSA

Morning Report

Wednesday, 22 November 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,078	0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,083	-0.2%	10 yr bond	4.45		0.00		90 day BBSW	4.38	0.00
Japan Nikkei	33,354	-0.1%	3 yr bond	4.08		-0.02		2 year bond	4.16	-0.03
China Shanghai	3,217	0.0%	3 mth bill rate	4.39		0.01		3 year bond	4.10	-0.03
German DAX	15,901	0.0%	SPI 200	7,099.0		-5		3 year swap	4.28	-0.06
UK FTSE100	7,482	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.45	-0.06
Commodities (close & change)			TWI	61.0	-	-	61.0	**United States**		
CRB Index	277.1	0.4	AUD/USD	0.6562	0.6590	0.6545	0.6557	3-month T Bill	5.24	-0.01
Gold	1,999.32	21.3	AUD/JPY	97.33	97.42	96.84	97.27	2 year bond	4.88	-0.03
Copper	8,394.00	12.5	AUD/GBP	0.5246	0.5254	0.5225	0.5230	10 year bond	4.41	-0.01
Oil (WTI futures)	77.84	0.0	AUD/NZD	1.0865	1.0875	1.0814	1.0837	**Other (10 year yields)**		
Coal (thermal)	125.80	1.8	AUD/EUR	0.5997	0.6015	0.5991	0.6007	Germany	2.57	-0.04
Coal (coking)	314.00	1.0	AUD/CNH	4.7003	4.7037	4.6766	4.6841	Japan	0.70	-0.05
Iron Ore	133.95	0.7	USD Index	103.47	103.71	103.18	103.58	UK	4.11	-0.02

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Fed meeting minutes provided little fresh guidance, but, on balance, reinforced market expectations that the Fed is done hiking. Market volatility remained subdued. US equities pulled back, ending a 5-day rally, while treasury yields finished slightly lower. The US dollar was rangebound but finished slightly higher.

Share Markets: US equities finished broadly lower ahead of Nvidia earnings as doubts about the sustainability of the recent rally in the so called "magnificent seven" resurfaced. The S&P 500 fell 0.2%, snapping a 5-day rally. The Dow Jones and the NASDAQ closed down 0.2% and 0.6%, respectively.

The ASX 200 gained 0.3% yesterday. Futures traded marginally lower overnight.

Interest Rates: The US yield curve bull steepened as short-end yields fell by more than longer-term yields. Conviction grew that the Fed would be on hold from here and turn to cutting in 2024. The 2-year yield fell 3 basis points to 4.88%, while the 10-year yield was down 1 basis points to 4.41%.

Interest rate markets are fully pricing Fed rate cuts by June next year. 90 basis points of rate cuts are priced in by the end of 2024.

Aussie bond futures barely budged overnight. The 3-year (futures) yield closed down 2 basis points at 4.08%, while the 10-year was unchanged at 4.45%.

Market pricing implies around a 25% chance of another rate hike from the RBA by the middle of next year. Rate cuts are not yet fully priced.

Foreign Exchange: The US dollar largely traded sideways but finished the day slightly higher. The DXY traded from a low of 103.18 to a high of 103.71 before closing around 103.58.

Several major currencies hit multi-month highs against the greenback. The British Pound and the Japanese Yen both hit a 2-month high, while the euro rallied to its highest level against the Greenback in 3 months.

The Aussie dollar reached a 3-month high of 0.6590 but failed to hold-on to gains, falling to an intraday low of 0.6545. The AUD/USD was trading slightly higher around 0.6557 at the time of writing.

Commodities: Oil closed flat, while gold, copper and iron ore gained. Gold briefly jumped above US$2,000 an ounce for the first time in twelve sessions.

Australia: Slower than expected progress on inflation and greater economic resilience underpinned the Reserve Bank's (RBA) decision to hike the cash rate by 25 basis points in November.

The minutes from the RBA Board meeting, released yesterday, showed that the Board's assessment of risks to the inflation and growth outlook has shifted from a global supply to a domestic demand focus.

The Board is growing concerned that a stronger economy could prolong the inflation fight and is less alarmed about the lagged impacts of monetary policy slowing the economy too far.

In particular, the minutes noted that "strength in demand was allowing firms to pass on higher costs". This was contributing to "growing signs of a mindset among business that any cost increases could be passed onto consumers". Clearly, the Board is concerned that inflation expectations may be drifting higher, a scenario they are committed to avoiding.

The messaging in the minutes is consistent with our view that it will take a further upside inflation surprise for the RBA to pull the trigger again.

However, given the growing concern around inflation expectations and the domestic forces underpinning the recent inflation surprise, only a relatively small upside surprise could be enough to force the RBA's hand on rates.

RBA Governor Michele Bullock echoed the tone set out in the minutes during a panel discussion. Bullock noted that "inflation is a crucial challenge over the next one to two years" and continued to underscore the importance of returning inflation to target.

New Zealand: The trade deficit narrowed to $1.7bn in October from $2.4bn in September. The narrowing was underpinned by shrinking imports as domestic demand cools under the weight of tight monetary policy.

United Kingdom: Public sector borrowing rose to £14.0bn in October eclipsing expectations for a £10.7bn gain. This was the strongest rate of public borrowing since June.

United States: Minutes from the Fed's November meeting provided little fresh guidance on the outlook for policy. The minutes did reveal the Fed's 'watch and wait' approach was unanimous, noting that "all participants agreed that the committee was in a position to proceed carefully and that policy decision at every meeting would continue to be based on the totality of incoming information". The Fed is trying to manage the two-sided risks; avoiding an overshoot on hikes that could send the economy into a recession, against failing to tighten enough to cool consumption and return inflation to target. However, the minutes retained a modest tightening bias, again stressing that "further evidence would be required for them to be confident that inflation was clearly on a path to the committee's 2% objective".

The Chicago Fed national activity index fell to -0.49 in October, from a downwardly revised -0.02 in September. This was the weakest reading since November 2022. A reading below zero indicates below-trend growth in the national economy and a sign of easing pressures on inflation.

The number of existing home sales fell to their lowest level on record in data going back to 1999. There were 3.79m existing homes sold in October, down 4.1% on September's reading. The significant increase in mortgage rates is discouraging existing home sales as borrowers would need to refinance off low fixed rate loans at much higher variable rates to transact.

Today's key data and events:

AU WBC Leading Index Oct prev –0.34% (10:30am)
AU RBA's Gov. Bullock Speech (7:35pm)
EZ Eur. Consumer Confidence Nov prev –17.9 (2am)
US Durable Goods Orders Oct (12:30am)
US UoM Consumer Sentiment Nov Final (2am)

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.

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