

Morning Report

Wednesday, 25 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,857	0.2%			Last	Overnight Chg		Australia		
US Dow Jones	33,141	0.6%	10 yr bond	4.71				90 day BBSW	4.23	0.02
Japan Nikkei	31,062	0.2%	3 yr bond	4.20				2 year bond	4.22	-0.07
China Shanghai	3,106	0.8%	3 mth bill rate	4.31				3 year bond	4.14	-0.07
German DAX	14,880	0.5%	SPI 200	6,890.0				3 year swap	4.39	0.02
UK FTSE100	7,390	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.69	-0.10
Commodities (close & change)			TWI	59.9	-	-	59.9	United States		
CRB Index	281.9	-1.6	AUD/USD	0.6336	0.6379	0.6332	0.6355	3-month T Bill	5.28	-0.01
Gold	1,970.97	-1.9	AUD/JPY	94.86	95.38	94.79	95.28	2 year bond	5.11	0.06
Copper	8,018.50	82.8	AUD/GBP	0.5173	0.5229	0.5170	0.5227	10 year bond	4.82	-0.03
Oil (WTI futures)	83.74	-1.8	AUD/NZD	1.0839	1.0889	1.0826	1.0874	Other (10 year yields)		
Coal (thermal)	137.60	-5.3	AUD/EUR	0.5940	0.6005	0.5936	0.6001	Germany	2.83	-0.05
Coal (coking)	321.00	2.5	AUD/CNH	4.6330	4.6630	4.6299	4.6482	Japan	0.85	-0.03
Iron Ore	116.70	0.6	USD Index	105.60	106.32	105.36	106.27	UK	4.54	-0.06

Data as at 8:15am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Sentiment stabilised in markets overnight on resilient US economic data and optimism the Israel-Hamas war will remain contained. US equities posted their first gain in five sessions, treasuries were mixed, and the US dollar firmed. The price of oil slipped to its lowest in over a week.

Share Markets: The S&P 500 posted a 0.7% gain, halting a five-day slide. The Dow Jones and the NASDAQ rose for a second consecutive day, rising 0.6% and 0.9% respectively.

The ASX 200 rose 0.2% yesterday, futures are pointing to a solid open this morning.

Interest Rates: US treasuries finished mixed in volatile trade as investors digested resilient US data and the evolving Israel-Hamas conflict. The 2-year yield rose 6 basis points to 5.11% after ranging between a low of 5.05% and a high of 5.13%. The 10-year yield closed down 3 basis points at 4.82% after trading between a low of 4.80% and a high of 4.89%.

Interest rate markets are pricing around a 40% chance of another rate hike from the Fed by January next year. Rate cuts are fully priced by July.

The 3-year Aussie bond (futures) yield rose 3 basis points to 4.20%, while the 10-year was unchanged at 4.71%.

Interbank cash rate futures imply around a 20%

chance of rate hike from the RBA in November. Markets still see a material risk of another hike in this cycle, though the timing is not unanimous.

Foreign Exchange: The US dollar appreciated against every G10 currency save the Aussie dollar. The DXY rose from a low of 105.36 to a high of 106.32 and is currently trading near that level at 106.27.

The Aussie dollar rose from a low of 0.6332 to a high of 0.6379 – its highest level in four sessions. The AUD/USD pair was trading around 0.6355 at the time of writing. The domestic inflation report later today will be a key driver of price action in today's trade. An upside surprise could see the Aussie retest resistance around 0.6400, while a soft reading could prompt further weakness.

Commodities: Commodity prices were broadly weaker. The West Texas Intermediate (WTI) oil future dropped 2.0% to US\$83.74 per barrel – its lowest level in more than a week.

Australia: Reserve Bank (RBA) Governor, Michele Bullock reiterated last night that the Board's "focus remains on bringing inflation back to target within a reasonable timeframe, while keeping employment growing". Bullock added that "it is possible that this can be done with the cash rate at its current level" but underscored that "the Board will not hesitate to raise the cash rate further if there is a material

upward revision to the outlook for inflation". The monetary policy framework was also discussed in light of the recent RBA review, Bullock highlighted the complementary nature of the Board's dual mandate for low and stable inflation and full-employment and discussed how this informed the current approach to monetary policy.

Eurozone: Manufacturing and services activity slipped deeper into contractionary territory in October. The manufacturing purchasing managers' index (PMI) fell to 43.0 in October from 43.7 in September. The reading was just slightly above the years low of 42.7 set in July. The services PMI dropped from 48.7 in September to 47.8 in October. This was the weakest services reading since February 2021.

United Kingdom: The manufacturing PMI firmed slightly in October but remained in contractionary territory for a fifteenth consecutive month. The Manufacturing PMI exceeded expectations, printing at 45.2, up slightly on Septembers reading of 44.3.

The services PMI edged down to 49.2 in October, from 49.3 in September. This was the third consecutive monthly reading below the threshold of 50 which separates expansion and contraction.

United States: Both the services and manufacturing PMIs firmed in October, adding to evidence of further economic resilience. The Manufacturing PMI edged up to 50.0 in October from 49.8 in September. This was the first reading of 50 or above since April and just the second month this year the sector has not been in contractionary territory.

The services PMI rose to 50.9 in October from 50.1 in September, marking the strongest reading since July. Both manufacturing and services measures beat expectations for a modest contraction in activity.

The composite gauge of business selling prices fell to a three year low of 52.9 and is now close to its pre-pandemic long-run average. The data points to solid progress on disinflation, on the backdrop of robust activity support the soft-landing objecting.

The Richmond Fed manufacturing index fell to 3 index points in October, down from 5 in September. A fall in new orders and capacity utilisation detracted from the headline result, while price measures were encouraging. Annualised growth in both input and output prices continued to moderate, coming in at 2.1% and 3.0%, respectively.

Today's key data and events:

AU CPI Q3 (11:30am)

Headline y/y exp 5.3% prev 6.0%

Headline q/q exp 1.1% prev 0.8%

Underlying y/y exp 5.0% prev 5.9%

Underlying q/q exp 1.1% prev 0.9%

AU CPI Indicator Sep y/y exp 5.2% prev 5.2% (11:30am)

EZ Ger. IFO Biz. Survey Oct exp 86.0 prev 85.7 (7pm)

EZ M3 Money Supply Sep exp -1.8% prev -1.3% (7pm)

US New Home Sales Sep exp 0.7% prev -8.7% (1am)

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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