

Morning Report

Monday, 4 December 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,073	-0.2%			Last	Overnight Chg		Australia		
US Dow Jones	36,246	0.8%	10 yr bond	4.41			-0.09	90 day BBSW	4.37	0.00
Japan Nikkei	33,432	-0.2%	3 yr bond	3.98			-0.10	2 year bond	4.16	0.05
China Shanghai	3,179	0.1%	3 mth bill rate	4.38			0.00	3 year bond	4.07	0.06
German DAX	16,398	1.1%	SPI 200	7,154.0			65	3 year swap	4.18	-0.08
UK FTSE100	7,529	1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.49	0.08
Commodities (close & change)			TWI	61.5	-	-	61.5	United States		
CRB Index	270.8	-2.9	AUD/USD	0.6607	0.6676	0.6600	0.6666	3-month T Bill	5.20	-0.04
Gold	2,072.22	35.8	AUD/JPY	97.95	98.07	97.70	98.01	2 year bond	4.54	-0.14
Copper	8,558.02	148.5	AUD/GBP	0.5234	0.5258	0.5221	0.5253	10 year bond	4.20	-0.13
Oil (WTI futures)	74.07	-1.9	AUD/NZD	1.0731	1.0766	1.0702	1.0758	Other (10 year yields)		
Coal (thermal)	133.50	1.3	AUD/EUR	0.6070	0.6138	0.6051	0.6129	Germany	2.36	-0.09
Coal (coking)	334.00	4.0	AUD/CNH	4.7215	4.7587	4.7164	4.7497	Japan	0.70	0.02
Iron Ore	131.35	0.2	USD Index	103.54	103.72	103.12	103.19	UK	4.14	-0.04

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: Financial market traders boosted their bets on US rate cuts, despite push back from the US Federal Chair Jay Powell on Friday. US bond yields and the US dollar fell in Friday's overnight trading session.

Share Markets: The boost to US rate cut bets lifted US equity markets. The Dow increased 0.8%, the S&P 500 rose 0.6% and the Nasdaq rose 0.6% also.

Interest Rates: There were large falls in US government bond yields across the US bond curve on Friday after remarks from Federal Reserve Chair Powell. The US 2-year yield dropped 14 basis points and the US 10-year yield fell 13 basis points.

Foreign Exchange: The US dollar index was softer through overnight trade on Friday. The AUD/USD pushed higher amid the US dollar weakness, from 0.6600 to 0.6676 – matching the 4-month high recorded earlier last week.

The euro initially fell from a Friday high of 1.0910 to a low of 1.0829 after dovish remarks from European Central Bank (ECB) member Villeroy. However, EUR/USD later recovered to 1.0890, spurred higher by Powell comments. The AUD/EUR pair rose towards a 4-month high near the 0.6140 handle.

Commodities: The West Texas Intermediate price of crude oil (futures) fell 2.5% to \$74.07 a barrel following a smaller than expected supply reduction announced at the OPEC+ meeting.

Gold reached an all-time high, rising as much as

1.9% to a peak of US\$2,075.09 a troy ounce in Friday's trading session, surpassing the previous intraday peak it had set in August 2020.

Australia: Dwelling prices reached a new record high after increasing 0.6% in November and rising 7.0% on a year ago. Since bottoming out in January 2023, national dwelling prices have risen 8.3%, more than fully offsetting the 7.5% fall recorded over the nine months after the Reserve Bank's first rate hike in this current cycle (in May 2022).

Price gains are now moderating as supply is drifting higher and testing demand. New listings have increased by an uncharacteristically large 32% since the end of May 2023.

However, a two-speed market is emerging. In locations where demand continues to exceed supply, price gains have showed limited signs of slowing and indeed have accelerated. This includes Perth (+1.9% in November), Brisbane (+1.3%) and Adelaide (+1.2%) where advertised stock levels remain low. Perth listings are nearly 40% below their five-year average for this time of the year, while listings are more than 30% below average in Brisbane and Adelaide.

In markets where supply has caught up to demand we have seen a clear moderation in price growth and in some cases outright declines. This includes Sydney (+0.3%), Melbourne (-0.1%), Hobart (-0.1%), and Darwin (-0.3%) where advertised stock levels

were above average levels.

The key question going forward is whether supply will continue to increase and outstrip demand, particularly in those markets where listings remain low. Overall, we expect demand, supported by the record growth in the population, to largely absorb higher supply, but it could get bumpy month to month the longer monetary policy remains restrictive.

China: The Caixin purchasing managers' index (PMI) of manufacturing rose from 49.5 in October to 50.7 in November. The result was slightly above the consensus forecast for a rise to 49.6.

Eurozone: ECB board member Villeroy commented that disinflation was developing faster than expected, that rate hikes were over (absent shocks) and that the ECB could consider rate cuts in 2024.

United States: The ISM manufacturing index was unchanged at 46.7 last month. It was the 13th consecutive month that the PMI stayed below 50, which indicates contraction in manufacturing. That is the longest such stretch since the period from August 2000 to January 2002. The United Auto Workers strike, which ended in late October, may have continued to have had an impact on the PMI. But a rebound any time soon is unlikely as manufacturers in the ISM survey mostly described inventories as bloated.

Jay Powell has sought to push back on growing market speculation that the Federal Reserve had won its fight against inflation, even as traders boosted bets that the US central bank could start cutting interest rates as early as next March.

In a speech on Friday, the Fed chair indicated that it was too soon to rule out further rate rises or to start discussing cuts. Powell insisted on Friday it would be "premature to conclude" that policy is restrictive enough.

Powell also said the Fed was "prepared to tighten policy further if it becomes appropriate to do so", even as he made clear that the policy was "well into restrictive territory" and that the full effects of the Fed's past actions have yet to materialise. He stressed that the Fed would be closely monitoring economic data. "Let the data reveal the appropriate path," he said.

Today's key data and events:

NZ Terms of Trade Q3 exp -2.2% prev 0.4% (8:45am)
 AU Melb Inst. Inflation Gauge Nov y/y prev 5.1% (11am)
 AU Business Indicators Q3 (11:30am)
 Inventories exp -0.6% prev -1.9%
 Gross Company Profits exp -1.2% prev -13.1%
 AU Housing Finance Value Oct (11:30am)
 Total exp 2.0% prev 0.6%
 Owner Occupier exp 2.0% prev -0.1%
 Investor exp 2.0% prev 2.0%
 US Factory Orders Oct exp -3.0% prev 2.8% (2am)
 US Durable Good Orders Oct exp -5.4% prev -5.4% (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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