

Morning Report

Friday, 13 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,091	0.0%			Last	Overnight Chg		Australia		
US Dow Jones	33,631	-0.5%	10 yr bond	4.49		0.11		90 day BBSW	4.14	0.00
Japan Nikkei	32,495	1.7%	3 yr bond	3.98		0.07		2 year bond	3.98	-0.02
China Shanghai	3,259	0.9%	3 mth bill rate	4.23		0.02		3 year bond	3.91	-0.03
German DAX	15,425	-0.2%	SPI 200	7,067.0		-58		3 year swap	4.17	0.04
UK FTSE100	7,645	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.37	-0.06
Commodities (close & change)			TWI	60.6	-	-	60.6	United States		
CRB Index	278.1	0.7	AUD/USD	0.6414	0.6431	0.6307	0.6314	3-month T Bill	5.33	-0.01
Gold	1,868.90	-5.5	AUD/JPY	95.68	95.83	94.46	94.59	2 year bond	5.07	0.09
Copper	7,919.25	-34.8	AUD/GBP	0.5209	0.5216	0.5179	0.5186	10 year bond	4.70	0.14
Oil (WTI futures)	82.91	-0.6	AUD/NZD	1.0653	1.0693	1.0640	1.0654	Other (10 year yields)		
Coal (thermal)	149.50	4.5	AUD/EUR	0.6039	0.6048	0.5991	0.5997	Germany	2.79	0.07
Coal (coking)	341.00	-7.5	AUD/CNH	4.6829	4.6892	4.6132	4.6155	Japan	0.76	-0.01
Iron Ore	113.25	-1.4	USD Index	105.72	106.60	105.54	106.58	UK	4.42	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: Stronger-than-anticipated US inflation data shortened the market odds of another rate hike in the US and resulted in a sharp sell off in both US bonds and share markets.

Share Markets: US share markets sold off as US treasury yields climbed. Losses for both the S&P 500 and Nasdaq Composite topped 1% in afternoon trading. At the close, the S&P 500 was down 0.6% and the Nasdaq had lost 0.6%. Meanwhile, the Dow was off 0.5%.

Interest Rates: US treasury yields rose after the stronger-than-expected US inflation, although they remained below the 16-year peaks hit after last week's US payrolls data. The US bond market sell-off gathered pace after an auction of new government debt was met with weak investor demand. The US 2-year yield, which is particularly sensitive to interest-rate expectations, closed 9 basis points higher at 5.07%. The yield on the US 10-year note jumped 14 basis points to 4.70%.

Traders also increased bets that the Federal Reserve would raise interest rates another time before the end of this year. The probability attached to another rate hike is around 50/50 now.

Foreign Exchange: The US dollar index strengthened during trade overnight with the Japanese yen and euro recording notable falls against the greenback. Against a stronger USD backdrop, the AUD/USD sold off. The weakening in

commodity prices important to the AUD also contributed to the AUD's selling pressures. The AUD/USD fell to an overnight low of 0.6307 and is at risk of revisiting the recent low of 0.6286.

Commodities: Oil closed lower after data showed US crude stockpiles rose 10.2 million barrels last week. The increase was below consensus expectations. The Energy International Agency (EIA) reported cushing inventories fell to the lowest since July 2022. The Organisation of Petroleum Exporting Countries (OPEC) said overnight it expects crude stocks to slump by about 3 million barrels per day this quarter – the most in data going back three decades. The US government has also imposed the first sanctions for violations of the Group of Seven (G7) price cap on Russian oil.

Australia: The consumer inflation expectations measure rose to 4.8% in October, from 4.6% in the previous month.

Eurozone: The minutes from the last policy meeting of the European Central Bank (ECB) suggested that the ECB's inflation goals would be met if the current restrictive policy settlements remain in place for a sufficiently long period. The minutes also revealed most of the committee endorsed the rise of 25 basis points in the refi rate.

United Kingdom: GDP rose 0.2% in August, meeting widely held expectations. It follows a contraction of 0.6% in July.

United States: US inflation was higher than forecast in September, raising the prospect that the Federal Reserve may raise interest rates again. The inflation data is accompanied by robust data on the labour market. The consumer price index (CPI) rose 0.4% in September, which was higher than the consensus forecast of 0.3%. It follows a rise of 0.6% in August. In annual terms, the CPI remained unchanged at 3.7%, but consensus expected a decline to 3.6%.

Core inflation, which strips out volatile energy and food prices, remained steady at 0.3% month on month. On a year-on-year basis, core inflation edged down from 4.3% to 4.1%.

The number of Americans applying for unemployment benefits was unchanged last week, remaining at historically low levels in another sign that the US job market remains robust. Unemployment claims stayed at 209,000 for the week ending October 7. The four-week moving average of claims, which strips out week-to-week volatility, fell by 3,000 to 206,250.

Today's key data and events:

NZ Card Spending Sep prev 0.9% (8:45am)

CH Consumer Price Index Sep exp 0.2% prev 0.1% (12:30pm)

CH Producer Prices Sep exp -2.4% prev -3.0% (12:30pm)

EZ Industrial Production Aug exp 0.1% prev -1.1% (8pm)

US Import Price Index Sep exp 0.5% prev 0.5% (10:30pm)

US Export Price Index Sep exp 0.5% prev 1.3% (10:30pm)

US UoM Cons. Sent. Oct Prel exo 67.0 prev 68.1 (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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