

Morning Report

Monday, 23 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,901	-1.2%			Last	Overnight Chg		Australia		
US Dow Jones	33,127	-0.9%	10 yr bond	4.75				90 day BBSW	4.22	0.00
Japan Nikkei	31,259	-0.5%	3 yr bond	4.22				2 year bond	4.28	-0.03
China Shanghai	3,128	-0.7%	3 mth bill rate	4.29				3 year bond	4.20	-0.03
German DAX	14,798	-1.6%	SPI 200	6,846.0				3 year swap	4.39	0.00
UK FTSE100	7,402	-1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.75	-0.04
Commodities (close & change)			TWI	59.9	-	-	59.9	United States		
CRB Index	286.0	-1.3	AUD/USD	0.6329	0.6332	0.6297	0.6318	3-month TBill	5.29	-0.03
Gold	1,981.40	6.9	AUD/JPY	94.80	94.85	94.42	94.69	2 year bond	5.07	-0.09
Copper	7,916.76	-46.2	AUD/GBP	0.5212	0.5216	0.5188	0.5194	10 year bond	4.91	-0.08
Oil (WTI futures)	88.08	-0.3	AUD/NZD	1.0821	1.0847	1.0817	1.0845	Other (10 year yields)		
Coal (thermal)	150.50	-0.4	AUD/EUR	0.5982	0.5982	0.5956	0.5961	Germany	2.89	-0.04
Coal (coking)	319.00	17.0	AUD/CNH	4.6445	4.6461	4.6209	4.6277	Japan	0.84	0.00
Iron Ore	113.40	0.8	USD Index	106.23	106.42	106.07	106.16	UK	4.65	-0.02

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: Markets shunned risk on Friday as diplomatic efforts to soothe conflict in the Middle East failed to yield clear progress. Global equities were sold off sharply, while a pick-up in demand for safe assets saw bond yields fall and gold rise. The US dollar edged lower.

Share Markets: There was a sea of red across global markets on Friday. The S&P 500 shed 1.3%, while the Dow Jones and the NASDAQ closed down 0.9% and 1.5%, respectively. Over the Atlantic, the FTSE 100 lost 1.3% in London, while the Euro Stoxx 50 closed down 1.6%.

The ASX 200 closed 1.2% lower on Friday to finish the week down 2.1%. Futures are pointing to a soft open this morning.

Interest Rates: The risk-off mood saw buyers rush to the safety of US treasuries, driving down yields across the curve. The 2-year yield fell 9 basis points to 5.07%, while the 10-year yield fell 8 basis points to 4.91%.

Swaps markets are pricing around a 1-in-3 chance of another rate hike from the Fed by January. This has pulled back from near a 50/50 chance in the middle of last week.

Aussie bond futures were little changed despite the move in US treasuries. The 3-year (futures) yield eased 1 basis points to 4.22%, while the 10-year (futures) yield fell 2 basis points to 4.75%.

Interest rate markets are fully pricing another rate hike from the Reserve Bank (RBA) by March next year.

Foreign Exchange: The US dollar eased slightly against a basket of major currencies. The DXY ranged between a low of 106.07 and a high of 106.42 and is currently trading around 106.16.

The Aussie dollar remained under pressure, falling from a high of 0.6332 to a low of 0.6297 – retesting the 0.6300 level. The AUD/USD has since regained some ground and is trading around 0.6318.

The Japanese Yen briefly breached the 150 level against the US dollar, raising the possibility of Japanese intervention. The USD/JPY pair jumped to 150.11 in this morning's trade but has since slipped to 149.83 at the time of writing.

Commodities: Gold was supported by the risk-off tone, continuing its march towards the US\$2000 level. The West Texas Intermediate (WTI) price of oil eased to US\$88.08 per barrel.

Israel-Hamas: Humanitarian aid trickled over the Egyptian border into Gaza over the weekend as conflict between Israel and Hamas intensified. Israel warned the Hezbollah militant group that it risked dragging neighbouring Lebanon into war, while US Secretary of State, Antony Blinken, said the US would “respond decisively” if Iran-backed groups attacked American forces.

Japan: The consumer price index (CPI) came in as expected in September, rising 3.0% in annual terms. This was down slightly from 3.2% gain over the year to August. The core series which excludes volatile food and energy items was firmer, increasing 4.2% over the year to September. This was down slightly on August's reading but was marginally stronger than expected by consensus. The further moderation in inflationary pressures likely adds credence to the Bank of Japan's lax stance on monetary policy and view that domestic conditions remain inconsistent with sustainable inflation.

New Zealand: The trade deficit widened at the margin in September but remained unchanged in rounded terms at \$2.3bn. The value of exports slipped for a fourth consecutive month to their lowest level since January 2022. Imports eased slightly but remained robust.

United Kingdom: Consumer sentiment deteriorated in October, falling well short of expectations for a slight gain. The GfK Consumer confidence index fell to -30 in October from -21 in September.

Retail sales contracted sharply in September, sliding 0.9% in the month following a 0.4% gain in August. Expectations were centred on a more modest 0.4% monthly fall. In annual terms, retail sales were down 1.0%, improving slightly from the 1.3% decline over the year to August.

United States: Loretta Mester, head of the Cleveland Fed branch, said another rate hike is "consistent with my own reading of economic conditions, the outlook, and the risks to the outlook". But Mester noted that policymakers need to be nimble amid current economic uncertainties.

Meanwhile, Philadelphia Fed President, Patrick Harker, reiterated his preference to keep interest rates unchanged. Harker commented that "this is a time where doing nothing is doing something, and, in fact, I'd argue that it equates to doing a lot". However, Harker underscored that the Fed will not "tolerate a reacceleration in prices" and that he is ready to revise his views should there be signs of reflation.

Today's key data and events:

US Chicago Fed Nat Act Index Sep exp -0.1 prev -0.2 (11:30pm)

EZ Cons. Confidence Oct Prel. exp -18.2 prev -17.8 (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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