

Morning Report

Thursday, 26 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,854	0.0%			Last	Overnight Chg		Australia		
US Dow Jones	33,036	-0.3%	10 yr bond	4.84		0.11	90 day BBSW	4.24	0.02	
Japan Nikkei	31,270	0.7%	3 yr bond	4.34		0.07	2 year bond	4.33	0.12	
China Shanghai	3,118	0.4%	3 mth bill rate	4.42		0.01	3 year bond	4.25	0.10	
German DAX	14,892	0.1%	SPI 200	6,842.0		-18	3 year swap	4.51	0.12	
UK FTSE100	7,414	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.72	0.03
Commodities (close & change)			TWI	60.2	-	-	60.2	United States		
CRB Index	283.1	1.3	AUD/USD	0.6355	0.6400	0.6305	0.6309	3-month T Bill	5.31	0.02
Gold	1,979.04	8.1	AUD/JPY	95.27	95.90	94.58	94.78	2 year bond	5.12	0.01
Copper	7,991.00	-27.5	AUD/GBP	0.5226	0.5258	0.5205	0.5210	10 year bond	4.96	0.13
Oil (WTI futures)	85.26	1.5	AUD/NZD	1.0875	1.0915	1.0860	1.0874	Other (10 year yields)		
Coal (thermal)	133.25	-1.4	AUD/EUR	0.6001	0.6039	0.5968	0.5971	Germany	2.89	0.06
Coal (coking)	320.00	-1.0	AUD/CNH	4.6482	4.6771	4.6217	4.6246	Japan	0.86	0.01
Iron Ore	116.90	-0.3	USD Index	106.27	106.57	106.14	106.57	UK	4.61	0.07

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: The US yield curve bear steepened as longer-dated yields jumped, supporting the US dollar and pressuring equities. Disappointing earnings compounded the pressure, driving the NASDAQ to its largest daily fall since February.

Share Markets: A disappointing batch of corporate earnings sent major US equity indices lower. The S&P 500 tumbled 1.4%, its weakest session in over 4-weeks. The Dow Jones lost 0.3%, while the tech-heavy NASDAQ dropped sharply losing 2.4% in its weakest session since February.

The ASX 200 jumped as much as 0.6% on yesterday's open but slipped sharply following stronger-than-expected domestic inflation data to finish day flat. Futures are pointing to a weak open this morning.

Interest Rates: US treasuries sold off at the long end of the yield curve, driving a bear steepening in the yield curve. The sell-off intensified following a weak 5-year treasury auction.

The 2-year yield finished 1 basis points higher at 5.12%, while the 10-year yield leapt 13 basis points to 4.96%.

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

Aussie bond futures followed the lead from the US. The 10-year (futures) yield climbed 11 basis points

to 4.84%. The 3-year (futures) yield was up 7 basis points to 4.34%, supported by yesterday's hot domestic inflation read.

Foreign Exchange: The US dollar strengthened against every G10 currency. The DXY rose from a low of 106.14 to a high of 106.57 and is currently trading near this level.

The Aussie dollar underperformed. The AUD/USD pair initially spiked during Asian trade, supported by strong inflation data. The pair tested and failed the 0.6400 level before drifting lower into the European session. Weaker sentiment and a sharp rise in the US 10-year yield pressured the Aussie to a low of 0.6305. The pair was trading around 0.6309 at the time of writing.

The Japanese Yen again pierced a key psychological level of 150 against the USD. The USD/JPY was trading around 150.12 at the time of writing.

The New Zealand Dollar fell to its lowest level since November. The NZD/USD pair fell from a high of 0.5870 to a near 1-year low of 0.5801.

Commodities: Energy commodities continue to fluctuate on news flow out of the Middle East. The West Texas Intermediate (WTI) price of oil rose to US\$85.26 per barrel. European natural gas futures also climbed.

Australia: Annual headline inflation slowed to 5.4% in the September quarter. The trimmed mean

measure, which excludes the smallest and largest price movements, also improved to 5.2%.

This represents welcome progress on disinflation, but progress was not as significant as expected by the market or by the Reserve Bank (RBA). In fact, the data revealed a concerning resurgence in inflation momentum which could test the RBA's resolve to tame inflation.

Domestic forces contributed strongly to the reinvigorated inflation pulse, while global forces, such as unwinding supply-chain disruptions, largely continued to underpin disinflation.

Housing and food categories remain the largest contributors to headline annual inflation, despite a moderation across both categories. Housing inflation was driven by ongoing strength in rents and a reacceleration in quarterly price growth for new dwelling purchases by owner occupiers. This has been a considerable source of disinflation over recent quarters.

There are emerging signs of stickiness in Australian inflation. Risks to the inflation outlook are also broadening. RBA Governor Bullock has noted 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 inflation data presents such an upside surprise. However, there is a question as to whether the surprise is large enough to trigger a response from the RBA. Reflecting this, the risk that the RBA tightens further has certainly increased.

Eurozone: The German IFO business conditions survey rose to 86.9 in October from, 85.8 in September. The assessment of current conditions and expectations for the outlook both improved, supporting optimism for a modest rebound in Europe's largest economy.

M3 money supply contracted for a third consecutive month in September, falling 1.2% in annual terms. This was up slightly on August's reading of -1.3% which marked the sharpest fall on record.

United States: Mike Johnson was elected speaker in the US House of Representatives after more than three weeks of Republican infighting.

US new home sales surprised to the upside in September jumping 12.3% in the month. This followed an 8.2% fall in August. The result points to robust appetite for new dwellings, despite headwinds from higher mortgage rates and elevated prices. Tight supply in the resale market is

supporting demand for new dwellings.

Today's key data and events:

AU Trade Price Indices Q3 (11:30am)

Import Prices prev -0.8%

Export Prices prev -8.5%

EZ ECB Policy Decision (11:15pm)

Main Refinancing Rate exp 4.5% prev 4.5%

US GDP Annualised Q3 Est. 1 exp 4.5% prev 2.1% (11:30pm)

US Core PCE Deflator Q3 Est. 1 exp 2.5% prev 3.7% (11:30pm)

US Durable Goods Orders Sep Prel. exp 1.8% prev 0.1% (11:30pm)

US Pending Home Sales Sep exp -2.1% prev -7.1% (1am)

US Kansas City Fed Index Oct prev -8 (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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