

Morning Report

Tuesday, 31 October 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	6,773	-0.8%			Last	Overnight Chg		Australia		
US Dow Jones	32,929	1.6%	10 yr bond	4.94				90 day BBSW	4.34	0.03
Japan Nikkei	30,697	-1.0%	3 yr bond	4.43				2 year bond	4.43	0.05
China Shanghai	3,168	0.1%	3 mth bill rate	4.43				3 year bond	4.36	0.05
German DAX	14,717	0.2%	SPI 200	6,810.0				3 year swap	4.61	0.07
UK FTSE100	7,327	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.87	0.06
Commodities (close & change)			TWI	60.2	-	-	60.2	United States		
CRB Index	280.8	-4.3	AUD/USD	0.6340	0.6384	0.6333	0.6374	3-month T Bill	5.31	0.00
Gold	1,996.10	-10.3	AUD/JPY	94.79	95.53	94.74	95.04	2 year bond	5.05	0.05
Copper	8,056.50	116.8	AUD/GBP	0.5226	0.5258	0.5225	0.5238	10 year bond	4.89	0.06
Oil (WTI futures)	82.54	-3.0	AUD/NZD	1.0908	1.0930	1.0899	1.0910	Other (10 year yields)		
Coal (thermal)	134.30	-3.9	AUD/EUR	0.5998	0.6027	0.5994	0.6005	Germany	2.82	-0.01
Coal (coking)	336.00	0.0	AUD/CNH	4.6475	4.6759	4.6431	4.6695	Japan	0.89	0.01
Iron Ore	120.80	-0.9	USD Index	106.58	106.70	106.06	106.14	UK	4.56	0.02

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Risk sentiment improved overnight as investors priced in a lower likelihood that the Israeli-Hamas conflict broadens to engulf the entire Middle East region. Investors are now focused on the Fed's policy decision due later this week, where the central bank is expected to remain on hold. US equities jumped, bond yields were volatile but finished higher, the US dollar was lower, and oil dipped by 3.0% overnight.

Share Markets: Risk sentiment improved which supported US equities. Positive earnings report also contributed to the increase. McDonald's sales and profits outcomes were better than expected over the third quarter. But the result showed that customer traffic dipped for the first time this year, which was more than offset by higher prices.

The S&P 500 jumped by 1.2%, the Dow Jones finished 1.6% higher, while the NASDAQ finished 1.2% higher. Despite the jump, the S&P 500 remains on track for its third monthly decline, the longest streak since March 2020.

The ASX 200 declined by 0.8% to close at its lowest closing level in a year. The weakness was widespread with ten of eleven sectors finishing in the red, led by financials stocks. Futures are pointing to a strong open this morning.

Interest Rates: US treasury yields were higher in a volatile trade, reversing some of the falls seen in

the previous session. Yields were impacted by speculation the Bank of Japan may ease its yield curve control and the US Treasury's lower estimates for borrowings over the December quarter.

The 2-year yield increased by 5 basis points to 5.05%, while the 10-year yield increased by 6 basis points to 4.89%.

Interest rate markets are pricing virtually zero chance of a rate hike from the Fed at this week's meeting. There remains around a 35% probability of a final rate hike this cycle.

Aussie bond futures were also higher, consistent with the stronger than expected retail trade numbers for the month of September. The 3-year (futures) yield increased by 4 basis points to 4.43%, while the 10-year (futures) yield increased by 5 basis points to 4.94%.

Interest rate markets are pricing a 50/50 chance of a Reserve Bank (RBA) rate hike on Cup Day next week.

Foreign Exchange: The US dollar was lower on the back of improved risk sentiment. The DXY remained within its recent range, trading between a low of 106.06 and a high of 106.70. It was trading around 106.14 at the time of writing.

The Aussie dollar was supported by the stronger than expected retail trade numbers. The AUD/USD pair bounced off a low of 0.6333 to a reach of high

of 0.6384 shortly after the retail data was released. The AUD/USD pair is currently trading around 0.6370.

The Japanese Yen rose sharply on reports the Bank of Japan may start to slowly step away from yield curve control at today's meeting and allow 10-year government bond yields to rise above 1.0%.

Commodities: Commodities were generally lower. The price of oil fell by 3% overnight. This comes after the World Bank warned that small disruption to crude supplies due to escalating Middle Eastern conflict will probably remove between 500,000 and 2 million barrels a day from global markets.

The West Texas Intermediate (WTI) price of oil declined to US\$82.54 per barrel. WTI touched a low of US\$81.82 – the lowest level in almost one month.

Australia: Retail sales rose 0.9% in September, following upwardly revised increases of 0.3% in August and 0.5% in July. The bounce is likely to reflect some seasonality with the warmer start to spring lifting spending on hardware, gardening, and clothing items. The release of the new iPhone model also contributed to the strength.

Despite the bounce, the underlying trend remains subdued. Retail trade is 2.0% higher than a year ago, which is well below the pre-pandemic average annual growth rate of 4.8%. Further, at \$35.9 billion retail trade returned to the level it was last November, showing that trade has been flat over the past 10 months despite the strong population growth.

In per capita terms, we estimate that retail trade is 0.8% lower than a year ago, which is well down on the pre-pandemic average annual growth rate of 3.0%. In real terms (adjusted for inflation), retail trade per capita could be as much as 5.0% lower than a year ago.

Looking at the September quarter, retail trade grew by 0.8% in nominal terms on average over the quarter and is likely to be slightly positive in real terms (adjusted for prices) - this comes after three consecutive negative quarters.

The monthly outcome was driven by a bounce across most categories including department stores (+1.7%), household goods (+1.5%) and other retailing (+1.3%).

Today's outcome points to a significant pullback in spending at the household level. However, strong population growth is offsetting this pullback, and we are seeing spending outperform in those states with strong population growth (such as NSW and

Victoria).

Eurozone: The Economic Sentiment Indicator (ESI) fell by 0.1 points to 93.3 in October, from a revised 93.4 in September. This was better than the 93.0 the market was expecting. Sentiment declined among manufacturers and retailers. This was partially offset by an improvement in confidence among service providers.

Surveyed selling price expectations declined in retail, while picking up in services and construction. Selling price expectations remain elevated especially in services. Consumers price expectations for the next twelve months edged down in October.

Consumer confidence was confirmed at -17.9 in October, slightly down from the -17.8 recorded in September. Consumers recorded improved confidence on their financial situation and intentions to make major purchases. This was offset by worsened expectations about their future financial situation and the general economic outlook.

German consumer price inflation moderated to 3.8% over the year to October, down from the 4.5% recorded in September and lower than the 4.0% the market was expecting. Food inflation eased to the lowest level since February 2022 and energy prices decreased for the first time since early 2021. Core inflation, which excludes volatile items such as food and energy, moderated to 4.3% over the year to October, down from 4.6% in September.

United States: The Federal Reserve Bank of Dallas's activity index for manufacturing in Texas declined to -19.2 in October, down from -18.1 in September. This was the 18th consecutive negative monthly read pointing to a sustained deterioration in business conditions. New order levels fell at a faster pace, shipments declined, and labour market indicators such as wages and employment slowed.

Today's key data and events:

AU RBA's Jones Speech (10:50am)
AU Private Sector Credit Sep (11:30am)
CH Mfg PMI Oct (12:30pm)
CH Non-mfg PMI Oct (12:30pm)
EZ GDP Q3 prev 0.1% (9pm)
EZ CPI Oct y/y (9pm)
JN Job to Applicant Ratio Sep Prel. (10:30am)
JN Industrial Production Sep Prel. (10:50am)
JN BOJ Policy Decision (TBC)
NZ Building Permits Sep (8:45am)
NZ Business Confidence Oct prev 1.5 (11am)
US Employment Cost Index Q3 prev 1.0% (11:30pm)
US FHFA House Prices Aug prev 0.8% (12am)
US S&P CoreLogic CS House Prices Aug prev 0.9% (12am)
US Chicago PMI Oct (12:45am)
US Cons. Confidence Index Oct prev 103.0 (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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