

# Morning Report

Tuesday, 24 October 2023



| Equities (close & % change)             |          |       | Sydney Futures Exchange (last & change) |         |             |                      |         | Interest rates (close & change) |      |       |
|---|----------|-------|---|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200                             | 6,844    | -0.8% |   |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |      |       |
| US Dow Jones                            | 32,936   | -0.6% | 10 yr bond                              | 4.72    |             |                      |         | 90 day BBSW                     | 4.21 | -0.01 |
| Japan Nikkei                            | 31,000   | -0.8% | 3 yr bond                               | 4.19    |             |                      |         | 2 year bond                     | 4.28 | 0.00  |
| China Shanghai                          | 3,082    | -1.5% | 3 mth bill rate                         | 4.31    |             |                      |         | 3 year bond                     | 4.21 | 0.01  |
| German DAX                              | 14,801   | 0.0%  | SPI 200                                 | 6,842.0 |             |                      |         | 3 year swap                     | 4.37 | -0.01 |
| UK FTSE100                              | 7,375    | -0.4% | FX Last 24 hrs                          | Open    | High        | Low                  | Current | 10 year bond                    | 4.78 | 0.04  |
| <b>Commodities (close &amp; change)</b> |          |       | TWI                                     | 59.9    | -           | -                    | 59.9    | <b>United States</b>            |      |       |
| CRB Index                               | 283.4    | -2.6  | AUD/USD                                 | 0.6318  | 0.6349      | 0.6289               | 0.6335  | 3-month T Bill                  | 5.30 | -0.01 |
| Gold                                    | 1,972.83 | -8.6  | AUD/JPY                                 | 94.69   | 95.02       | 94.32                | 94.84   | 2 year bond                     | 5.05 | -0.02 |
| Copper                                  | 7,916.76 | -46.2 | AUD/GBP                                 | 0.5194  | 0.5198      | 0.5171               | 0.5173  | 10 year bond                    | 4.85 | -0.07 |
| Oil (WTI futures)                       | 86.12    | -2.0  | AUD/NZD                                 | 1.0845  | 1.0848      | 1.0822               | 1.0837  | <b>Other (10 year yields)</b>   |      |       |
| Coal (thermal)                          | 142.85   | -2.6  | AUD/EUR                                 | 0.5962  | 0.5972      | 0.5937               | 0.5938  | Germany                         | 2.87 | -0.02 |
| Coal (coking)                           | 318.50   | -0.5  | AUD/CNH                                 | 4.6285  | 4.6420      | 4.6077               | 4.6309  | Japan                           | 0.88 | 0.04  |
| Iron Ore                                | 112.00   | -0.8  | USD Index                               | 106.19  | 106.33      | 105.52               | 105.61  | UK                              | 4.60 | -0.05 |

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:** There were volatile movements overnight as markets swung from gains to losses and vice versa after the US 10-year treasury yield breached the 5% level for the first time since July 2007. The higher yields attracted buyers and yields pulled back sharply soon afterwards. Share markets were mixed in a volatile session and the US dollar ended lower against major currencies as bond yields slipped.

**Share Markets:** Equities swung between gains and losses on the day and ended mixed. The S&P 500 recovered from an initial drop of around 0.8% to trade around 0.7% higher during the session, before losing ground again to close down 0.2%. The Dow Jones dropped 0.6%, while the Nasdaq benefitted from falling long-term yields to close 0.3% higher.

European equities were mixed earlier in the day. The Euro Stoxx 50 closed 0.4% higher, while the French CAC 40 gained 0.5%. The German DAX was flat, while the UK FTSE 100 lost 0.4%.

The ASX 200 dropped for the third consecutive day, losing 0.8% to trade at its lowest level since November 2022. Seven of 11 sectors were down. Energy and materials were the worst performers – each losing more than 2%. Health care bucked the trend and closed 1.5% higher. Futures are pointing to a soft open this morning.

**Interest Rates:** Bond yields were volatile after the

US 10-year bond yield initially rose above 5% – peaking at 5.02% – for the first time since July 2007. The rise above this key psychological level attracted significant buying activity and the covering of shorts from speculative traders who had been betting on bond yields rising. The large increase in demand resulted in bond prices increasing and yields falling rapidly. The 10-year bond yield fell sharply to close at 4.85% – a net 7 basis point reduction on the day. The 2-year treasury yield was also volatile during the session and ended lower. The yield initially rose to a high of 5.13%, before pulling back and closing at 5.05% – 2 basis points lower on the day.

Interest-rate markets are attaching a slightly less than 40% chance of another hike from the Fed by January 2024. Markets are also expecting around 3.5 cuts by January 2025.

Australian government bond yield (futures) broadly mimicked moves in the US. The 10-year (futures) yield lost 8 basis points, to 4.72%. The 3-year (futures) yield was 5 basis points lower, at 4.19%. Interest-rate markets are attaching an almost 1 in 4 chance of a hike from the RBA in November. Looking further, markets are fully priced for one more hike by May next year.

**Foreign Exchange:** The US dollar lost ground as bond yields declined, reducing yield support for the dollar. The USD Index fell from a high of 106.33 to a low of 105.52 at the same time as the 10-year yield

fell sharply. The pair was trading at 105.61 at the time of writing.

The Aussie gained ground against a weaker US dollar. The pair increased from a low of 0.6289 to a high of 0.6349, before retracing slightly to 0.6335.

**Commodities:** Oil pulled back by US\$2 per barrel to trade at just above US\$86 per barrel as hostilities in the Middle East didn't intensify materially overnight and a ground invasion has not yet occurred. Other commodities also pulled back, including iron ore, coal, copper, and gold.

**Israel-Hamas:** The Israeli military continued airstrikes on Gaza, while a ground invasion has not yet begun. The Israeli currency, the shekel, extended its declines to the longest since 1984. The outlook for economic growth in Israel was lowered to 2.3% by the Israeli central bank, as the conflict weighs on growth and has the potential to have greater ramifications if it escalates further.

**Eurozone:** Consumer confidence was almost unchanged in October, at -17.9. This followed a -17.8 reading in September and was slightly above consensus expectations of -18.2. Confidence has been falling for the third consecutive month after rising to a 17-month high of -15.1 in July and remains well below its long-term average.

**United States:** The Chicago Fed National Activity Index rose to 0.02 in September, up from a revised -0.22 reading in August. A reading below zero indicates below-trend growth in the economy. The outcome beat consensus expectations, which centred on a -0.14 result. The index is made up of 85 individual indicators. Of those, 47 contributed positively, while 37 contributed negatively.

#### Today's key data and events:

AU RBA's Gov. Bullock Speech (4:30pm)  
 EZ Markit Services PMI Oct Prel. exp 48.6 prev 48.7 (7pm)  
 EZ Markit Mfg PMI Oct Prel. exp 43.7 prev 43.4 (7pm)  
 UK Markit Mfg PMI Oct Prel. exp 44.7 prev 44.3 (7:30pm)  
 UK Markit Services PMI Oct Prel. exp 49.3 prev 49.3 (7:30pm)  
 US Markit Mfg PMI Oct Prel. exp 49.4 prev 49.8 (12:45am)  
 US Markit Services PMI Oct Prel. exp 49.9 prev 40.1 (12:45am)  
 US Richmond Fed Index Oct exp 3 prev 5 (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.

**Jarek Kowcza, Senior Economist**

Ph: +61 481 476 436

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@stgeorge.com.au  
+61 404 844 817

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@stgeorge.com.au  
+ 61 481 476 436

**Senior Economist**

Pat Bustamante  
pat.bustamante@stgeorge.com.au  
+61 468 571 786

**Economist**

Jameson Coombs  
jameson.coombs@stgeorge.com.au  
+61 401 102 789

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St. George has a contract to supply Information, the supply of the Information is made under that contract and St.George's agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.