Morning Report

Wednesday, 29 November 2023

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,015	0.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,417	0.2%	10 yr bond	4.46		-0.05		90 day BBSW	4.37	0.00
Japan Nikkei	33,408	-0.1%	3 yr bond	4.10		-0.07		2 year bond	4.23	-0.05
China Shanghai	3,186	0.2%	3 mth bill rate	4.39		0.00		3 year bond	4.16	-0.06
German DAX	15,993	0.2%	SPI 200	7,053.0		15		3 year swap	4.31	-0.05
UK FTSE100	7,455	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.50	-0.07
Commodities (close & change)			TWI	61.2	-	-	61.2	**United States**		
CRB Index	273.7	3.2	AUD/USD	0.6607	0.6666	0.6597	0.6645	3-month T Bill	5.25	0.00
Gold	2,041.33	27.2	AUD/JPY	98.19	98.38	97.89	98.00	2 year bond	4.73	-0.15
Copper	8,415.50	123.0	AUD/GBP	0.5231	0.5246	0.5227	0.5235	10 year bond	4.33	-0.06
Oil (WTI futures)	76.39	1.5	AUD/NZD	1.0832	1.0862	1.0826	1.0839	**Other (10 year yields)**		
Coal (thermal)	127.90	-1.2	AUD/EUR	0.6030	0.6057	0.6027	0.6048	Germany	2.50	-0.05
Coal (coking)	327.00	0.7	AUD/CNH	4.7307	4.7578	4.7232	4.7414	Japan	0.76	-0.02
Iron Ore	128.45	-0.4	USD Index	103.19	103.32	102.61	102.78	UK	4.17	-0.04

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: Comments from Fed Governor Chrisopher Waller rekindled expectations that the Fed is done hiking. Markets upped bets on rate cuts next year, pricing in a full 400 basis points of cuts in 2024. Treasury yields fell across the curve, led by the short end, driving the US dollar lower. US equities eked out gains.

Share Markets: US equities failed to gain traction despite the fall in real rates but managed to squeeze out small gains. The S&P 500 gained 0.1%, while the Dow Jones and the NASDAQ finished up 0.2% and 0.3%, respectively.

The ASX 200 finished 0.4% higher after jumping almost 0.9% at the open.

Interest Rates: The US treasury market rally continued. Yields fell sharply at the short-end of the curve with the 2-year yield tumbling 15 basis points to 4.74%, its lowest level in three months. The 10-year yield closed 6 basis points lower at 4.33% - a 10-week low.

Traders upped bets for rate cuts next year and slashed the probability of more Fed rate hikes. There are four 25-basis points rate hikes fully priced for next year, starting in June.

Aussie bond futures followed the lead from US markets. The 3-and-10-year futures both gained, pushing yields lower.

Markets are pricing a 60% chance of another rate hike from the RBA by mid-2024.

Foreign Exchange: The US dollar fell against every G-10 currency alongside weakening yield support. The DXY fell to a 3-month low of 102.61 and is currently trading around 102.78. The DXY has fallen almost 5 index points from its early October high.

The Aussie dollar took the weaker greenback in its stride. The AUD/USD rose from a low of 0.6597 to a high of 0.6666 – its highest level in almost four months.

The British Pound rose to a 2-month high of 1.2715 against the US dollar. The euro touched its highest level against the US dollar in 3-months at 1.1009.

Commodities: The price of oil rose as OPEC+ got not closer to resolving its output quota dispute. The alliance hasn’t reached a deal with Angola and Nigeria which could further delay a meeting now scheduled for Thursday.

Australia: Retail sales declined 0.2% in October, the first monthly decline since June. Spending declined across all categories, except for food. Seasonal factors likely played a part, as consumers delay spending to take advantage of discounts during Black Friday sales in November.

Looking through the seasonality, the underlying trend remains subdued. Retail trade is 1.2% higher than a year ago, the weakest annual growth rate since COVID lockdowns. This is despite record population growth. In per capita terms, we estimate that retail trade is 1.6% lower than a year ago, which is the largest fall on record (outside of the pandemic). Compared with the peak recorded in November 2022, per capita retail spending is 2.9% lower.

Squeezed by elevated inflation and high interest rates, more consumers are pulling back on dining out. Spending on cafes, restaurants and takeaway fell by 0.1% over the past three months – the first quarterly fall since we came out of lockdowns. At the same time, spending on food has increased by 1.3% over the same period, outpacing growth in spending on dining out for the first time post-COVID.

Outside of this, consumers have also pulled back on other discretionary items – over the past three months, retail trade excluding food and cafes, restaurants & takeaway has increased by 1.0%, down from the 2.6% recorded over the three months to September.

Retail spending is expected to remain under pressure going forward, reflecting the lagged effect of monetary policy, stretched household budgets, and slowing economic growth.

Eurozone: M3 money supply contracted 1.0% over the year to October following a 1.2% annual fall in September. Annual money supply growth has been negative for four consecutive months, reflecting tightening monetary conditions.

United States: Fed Governor, Christopher Waller, said "I am increasingly confident that policy is currently well position to slow the economy and get inflation back to 2%" supporting the recent swing in market pricing towards deeper rate cuts in 2024. The remarks suggest that consensus is widening among officials that policy may be "sufficiently restrictive" to bring inflation back to target, bolstering the case that the Fed is done hiking.

Comments from Fed colleague Michelle Bowman were less convincing. Bowman said she remains willing to support rate hikes if inflation progress stalls, adding that she continues to believe more policy tightening will be needed. However, her support for rate hikes was more conditional on inflation progress than previous remarks.

House prices rose solidly again in September according to both the Federal Home Finance Agency (FHFA) and CoreLogic. The FHFA price measure rose 0.6% in the month, while the CoreLogic measure gained 0.7%. Both represented a marginal step down on August's price growth. Households on ultra-low 30-year fixed rate loans have an incentive not to sell, underpinning low listings and sales volumes in established markets. This dynamic is holding up price appreciation.

Consumer confidence rose for the first time in four months increasing to 102.0 in November from a revised reading of 99.1 in October. Both the assessment of the present situation and expectations for the outlook improved.

The Richmond Fed manufacturing index slipped into negative in November for the first time in three months. The index fell from 3 in October to -5 in November. Manufacturing activity has been in contraction in the Richmond Fed district for all but two months this year.

Today's key data and events:

AU Construction Work Done Q3 exp 1.3% prev 0.4% (11:30am)

AU Monthly CPI Indicator Oct y/y exp 5.5% prev 5.6% (11:30am)

NZ RBNZ Policy Decision (12pm)

Official Cash Rate exp 5.50% prev 5.50%

EZ Eur. Consumer Confidence Nov Final prev -16.9 (9pm)

EZ Eur. Economic Conf. Nov exp 93.6 prev 93.3 (9pm)

EZ Ger. CPI Nov Prel. y/y exp 3.5% prev 3.8%(12am)

US GDP Q3 Second Est. exp 3.5% prev 3.5% (12:30am)

US Core PCE Deflator Q3 Second Est. exp 2.4% prev 2.4% (12:30am)

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.

Jameson Coombs, Economist

Ph: +61 401 102 789

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