

Morning Report

Wednesday, 16 October 2019



Equities (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)			
S&P / ASX200	6652.0	0.1%	Last		Overnight Chg			Australia			
Dow Jones	27024.8	0.9%	10 yr bond	98.94	-0.04			10 year bond	1.02	-0.03	
Nikkei	22207.2	1.9%	3 yr bond	99.30	-0.03			3 year bond	0.69	-0.01	
Hang Seng	26503.9	-0.1%	3 month bill	99.14	-0.02			90 day BBSW	0.85	-0.01	
Shanghai	2991.0	-0.6%	SPI 200	6675	4			United States			
DAX	12629.8	1.1%	FX Last 24 Hours		Open	High	Low	7:00 AM	10 year bond	1.77	0.02
FTSE 100	7211.6	0.0%	TWI	59.2	-	-	59.1	2 year bond	1.62	0.01	
Commodities (Close & Change)			AUD/USD	0.6773	0.6788	0.6740	0.6751	3-month T Bill	1.67	-0.01	
CRB Index	174.7	-0.2	AUD/JPY	73.43	73.68	73.07	73.51	Other (10 year yields)			
Gold	1480.8	-12.0	AUD/GBP	0.5393	0.5398	0.5276	0.5281	Germany	-0.42	0.03	
Copper	5818.0	22.0	AUD/NZD	1.0756	1.0780	1.0731	1.0738	Japan	-0.17	0.01	
Oil (WTI)	52.8	-0.8	AUD/EUR	0.6143	0.6154	0.6114	0.6118	UK	0.69	0.05	

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Thomson Reuters Eikon.

Main Themes: News that the EU and the UK were closer to a Brexit deal boosted the pound and euro. Better earnings also supported risk appetite in equities. However, the IMF downgraded its global growth forecasts, providing a reminder that the outlook remains uncertain.

Share Markets: Attention turned from the trade talks to earnings after a range of stronger-than-expected results boosted healthcare and financial stocks.

Interest Rates: Better risk appetite spurred by the lift in equities and reports of a Brexit deal eased demand for government debt. Yields on US treasuries lifted, in line with yields in Europe. US 10-year yields were 4 basis points higher at 1.77%.

Foreign Exchange: Sterling jumped to US\$1.28 this morning, its highest since May, as hopes lifted that a no-deal Brexit would be avoided. The euro also benefited from the news, while the US dollar index edged lower. Despite the improved risk environment, the Australian dollar weakened, likely reflecting concerns over the global growth outlook.

Commodities: Global growth concerns also weighed on oil prices after a report overnight revealed that China's factory gate prices fell sharply. Gold prices also weakened, as Brexit progress eased geopolitical risks.

Global: The IMF downgraded its global growth forecast for 2019 to 3.0% from a forecast of 3.2% in July. It was the weakest 2009. The downgrade reflected a "sharp deterioration in manufacturing

activity and global trade" and the downward impact of trade tensions on investment. Forecasts for 2020 were also downgraded from 3.5% to 3.4%.

Australia: The minutes of the Reserve Bank's (RBA) October board meeting provided greater insight into the decision to lower the cash rate to 0.75%. It was the third time the cash rate has been lowered this year.

There was extensive discussion over the case for and against easing policy further. The RBA pointed out that unemployment and inflation outcomes were "likely to be short of the Bank's goals". Over the course of this year, we have been highlighting the risk that the unemployment rate would head higher, and that inflation is unlikely to return to the RBA's 2 to 3% target over the medium-term.

The RBA highlighted that it was the "level of interest rates" which was the key driver of demand rather than changes in interest rates, which supported the case for lower rates sooner rather than later in the face of increased downside risks.

The RBA's expectation for economic growth to pick up to a pace of growth close to trend remains unlikely. Moreover, the discussion against the case for leaving rates on hold in the October meeting suggests the RBA is open to lowering official interest rates again. We continue to expect that the RBA will lower the cash rate another 25 basis points. February remains the most likely timing but an earlier move cannot be ruled out.

New Zealand: New Zealand housing sales picked up in September, according to data released by the

Real Estate Institute of New Zealand. Home sales rose 3.3% year-on-year in September following a 6.1% fall in August. Median prices continued to trend higher, recording a 6.6% yearly increase in September compared with a 5.5% rise in August.

High population growth has been a major driver of housing demand. The latest immigration estimates released for August show that migration has plateaued following a near term peak reached in February this year. Annual net migration of 53,810 was recorded in the 12 months to August, down from a peak of 55,700 in February.

China: Consumer prices rose while producer prices remained in contractionary territory in September. Slowing domestic demand and falling raw materials prices left the producer price index 1.2% lower over the year in August, in line with expectations.

Meanwhile, the consumer price index surged although further detail in the report show that a spike in pork prices was the main culprit. An epidemic of African swine flu has decimated the Chinese pork population which has driven up food prices. Food CPI was 11.2% in September while pork prices were 69% higher than a year ago. Other goods recorded only mild inflation over the year.

Japan: Japanese output remained subdued in August. The tertiary index, which measures activity in the retail, communications and other service industries, rose 0.4% in August compared with expectations of a 0.6% rise. Despite the latest slight undershoot, the reading suggests that the services sector is so far weathering the US-China trade war storm that is affecting the manufacturing sector.

Data on the manufacturing sector confirmed that industrial output fell 1.2% over the month in August while capacity utilisation fell back 2.9%, indicating slack in the sector.

United Kingdom: A Brexit deal appears to be closer. It was reported that gaps on an agreement had narrowed, and an EU official said it was “close but not 100% certain”. However, it remains unclear if a deal can be reached before an EU leaders summit on Thursday. Even if the EU approves the deal, it would need to pass British parliament, in order to

The ILO unemployment rate edged up from a 44-year low of 3.8% in July to 3.9% in August, as employment declined 56k over the three months to August. It was the largest decline since 2017, suggesting Brexit woes are biting on employment decisions.

United States: There was a rare piece of good news

in the manufacturing sector. The NY empire manufacturing index improved from 2.0 in August to 4.0 in October. It is one of the early regional surveys suggesting some slight improvement although the index remains well below its level over last year.

Today's key data and events:

NZ CPI Q3 exp 0.6% prev 0.6% (8.45am)
 AU Westpac Leading Index Sep prev -0.28% (10.30am)
 UK CPI Sep exp 0.2% prev 0.4% (7.30pm)
 UK Retail Price Index Sep exp 0.0% prev 0.8% (7.30pm)
 EZ CPI Sep exp 0.2% prev 0.1% (7.30pm)
 US Retail Sales Sep exp 0.3% prev 0.4% (11.30pm)
 US NAHB Housing Market Index Oct exp 68 prev 68 (1.00am)
 US Federal Reserve's Beige Book Sep (5.00am)
 US Fed's Evans (1.45am), Kaplan (4.00am) and Brainard (6.00am) Speak

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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