

Morning Report

Thursday, 17 October 2019



Equities (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)		
S&P / ASX200	6736.5	1.3%	Last		Overnight Chg			Australia		
Dow Jones	27002.0	-0.1%	10 yr bond	98.94	0.00			10 year bond	1.05	0.04
Nikkei	22472.9	1.2%	3 yr bond	99.31	0.01			3 year bond	0.70	0.02
Hang Seng	26664.3	0.6%	3 month bill	99.14	0.00			90 day BBSW	0.85	0.00
Shanghai	2978.7	-0.4%	SPI 200	6750	75			United States		
DAX	12670.1	0.3%	FX Last 24 Hours	Open	High	Low	7:30 AM	10 year bond	1.74	-0.02
FTSE 100	7168.0	-0.6%	TWI	59.1	-	-	58.8	2 year bond	1.59	-0.03
Commodities (Close & Change)			AUD/USD	0.6751	0.6765	0.6720	0.6760	3-month T Bill	1.67	0.00
CRB Index	175.0	0.2	AUD/JPY	73.48	73.56	73.07	73.52	Other (10 year yields)		
Gold	1489.5	8.6	AUD/GBP	0.5280	0.5324	0.5235	0.5270	Germany	-0.39	0.03
Copper	5773.0	-45.0	AUD/NZD	1.0729	1.0777	1.0680	1.0740	Japan	-0.16	0.01
Oil (WTI)	53.4	0.6	AUD/EUR	0.6119	0.6124	0.6082	0.6104	UK	0.72	0.02

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

Main Themes: An unexpected decline in US retail sales heightened concerns that weakness was spreading to the US consumer. Bond yields and the US dollar fell. Shares were also down slightly.

Share Markets: While the run of earnings results were mostly positive, ongoing concerns regarding trade negotiations and weak economic data in the US weighed on share markets. US indices were down slightly – the Dow fell 0.1% while the S&P500 fell 0.2%.

Interest Rates: Yields on US treasuries fell upon the release of the disappointing retail sales report last night, although partly retracted as the session wore on. US 10-year yields fell 3 basis points to 1.75%. Market odds for a rate cut by the Federal Reserve this month has increased to 84%, up from 73% previously.

Foreign Exchange: The US dollar fell against most major currencies on the back of the drop in retail sales, and as expectations firmed of further easing by the Federal Reserve. GBP rose further as the UK came closer to a Brexit deal. The New Zealand dollar initially jumped yesterday after CPI was stronger-than-expected, but then came under pressure after RBNZ Deputy Governor Geoff Bascand said that further rate cuts might be needed to support growth. The Australian dollar was mostly weighed down with the NZD yesterday, but lifted as the US dollar weakened in the overnight session to trade at 76.6 US cents this morning.

Commodities: Oil prices gained on signs that OPEC and its allies would extend production cuts.

Commodity prices were also boosted by the weaker US dollar, including the gold price.

Australia: The Westpac-Melbourne Institute leading index fell 0.1% and has fallen for the second consecutive month. The index continues to point to economic growth remaining below trend over the next three to nine months.

New Zealand: Inflation in the September quarter was a touch higher than expectations. CPI lifted 0.7% in the quarter, versus the consensus estimate of 0.6%. The annual rate of inflation however, still edged lower, from 1.7% in the June quarter to 1.5% in the September quarter and point to inflation pressures remaining subdued.

Europe: CPI inflation in Europe was revised lower from an annual rate of 0.9% to 0.8% in the final estimate for September. With inflation moving away from the ECB's target of 2%, it provides some justification for ECB policy easing. Inflation was driven lower by food and energy. Core inflation was unrevised at 1.0%.

United Kingdom: Comments from the European Union suggested that a Brexit deal was very close. European Council President Donald Tusk said that "the basic foundations of this agreement are ready and theoretically we could accept a deal tomorrow". Encouraging comments have also come from French President Macron and German Chancellor Merkel. However, the deal also needs to pass British parliament, and it is not clear that there is support from the Democratic Unionist Party (DUP). The House of Commons will hold a special

sitting on Saturday.

Inflation was less than expected. CPI lifted 0.1% in September versus the median estimate of 0.2%. The annual rate was steady at 1.7%, keeping inflation at its lowest in nearly three years, and below the Bank of England's (BOE) 2% target for two consecutive months.

United States: Retail sales unexpectedly fell 0.3% in September, versus consensus estimates for a 0.3% gain. It was the weakest in eight months, and provides an early indication that the long-running uncertainty from the trade tensions is hitting the consumer. It indicates that the slowing in economic activity is becoming more widespread. The consumer has been a source of resilience while the industrial sector has languished under the weight of tariffs and ongoing uncertainty.

Chicago Federal Reserve President Evans provided a case for further easing, given that there were risks to the economy or that unexpected downside shocks might hit. "There is an argument for more accommodation now to provide some further risk-management buffer against these potential events". The NAHB housing market index rose from 68 in September to 71 in October, the highest in 18 months. Home building confidence is being supported by the steady decline in mortgage rates.

Today's key data and events:

AU RBA Deputy Governor Debelle speaks (9.15am)

AU Labour Force Sep (11.30am)

Employment Change exp 17k prev 34.7k

Unemployment Rate exp 5.3% prev 5.3%

Participation Rate exp 66.2% prev 66.2%

UK Retail Sales Sep exp -0.2% prev -0.2% (7.30pm)

US Total Net TIC flows Aug prev \$43.8bn (7am)

US Housing Starts Sep exp -3.2% prev 12.3% (11.30pm)

US Building Permits Sep exp -5.3% prev 8.2% (11.30pm)

US Philadelphia Fed Index Oct exp 8 prev 12 (11.30pm)

US Industrial Production Sep exp -0.2% prev 0.6% (12.15am)

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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