Morning Report

Friday, 18 October 2019

Equites (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)		
S&P / ASX200	6684.7	-0.8%		Last		Overnight Chg		**Australia**		
Dow Jones	27025.9	0.1%	10 yr bond	98.88		-0.05		10 year bond	1.11	0.05
Nikkei	22472.9	1.2%	3 yr bond	99.25		-0.06		3 year bond	0.75	0.05
Hang Seng	26848.5	0.7%	3 month bill	99.10		-0.04		90 day BBSW	0.85	0.00
Shanghai	2977.3	0.0%	SPI 200	6634		-16		**United States**		
DAX	12655.0	-0.1%	FX Last 24 Hours	Open	High	Low	7:30 AM	10 year bond	1.75	0.01
FTSE 100	7182.3	0.2%	TWI	58.8	-	-	59.2	2 year bond	1.60	0.01
Commodites (Close & Change)			AUD/USD	0.6756	0.6833	0.6750	0.6823	3-month T Bill	1.67	0.01
CRB Index	175.5	0.6	AUD/JPY	73.47	74.39	73.40	74.13	**Other (10 year yields)**		
Gold	1491.8	2.4	AUD/GBP	0.5265	0.5340	0.5254	0.5300	Germany	-0.40	-0.01
Copper	5730.0	-43.0	AUD/NZD	1.0734	1.0792	1.0726	1.0750	Japan	-0.15	0.01
Oil (WTI)	53.9	0.5	AUD/EUR	0.6101	0.6149	0.6094	0.6133	UK	0.68	-0.04

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: A Brexit deal was reached with the EU, but it still requires approval from the UK parliament. Markets see-sawed after the announcement. In the US, company earnings data was mostly positive which sent equities closer to their all-time highs.

Share Markets: US stock markets cautiously advanced as earnings data remained mostly upbeat. The Dow Jones (0.09%) and S&P500 (+0.28%) closed higher, but fluctuated over the session. The Dow was held back by disappointing earnings from IBM while Morgan Stanley added to the list of banks beating expectations. Netflix shares rose as international subscriber numbers beat estimates.

An increase in global risk appetite left most international equity markets higher after the announcement that the EU had agreed to the latest Brexit plan, however most of these gains were pared later in the session.

Interest Rates: Bond yields were volatile amid speculation around the latest Brexit deal. US treasuries surged initially as an agreement was announced, however subsequent comments from Northern Ireland's DUP and lacklusture US housing data led to a reversal of those gains. The US 10-year was little changed at 1.76% after rising as high as 1.8% while the 2-year edged up 1 basis point to 1.6%.

Australian bonds firmed on the back of a better-than-expected labour market reading, reducing the probability of a cut by the RBA in November. Both the 10 and 3 year bonds lifted 5 basis points to 1.11% and 0.75% respectively.

Foreign Exchange: The US dollar index fell as both the euro and pound picked up on the announcement of the EU's backing of a Brexit deal. More tepid economic data also held back the US dollar. The pound ended a volatile session 0.4% higher at US$1.2879, having reached a high of US$1.2990.

The Australian dollar was stronger, boosted by an unexpected fall in the unemployment rate and Brexit optimism. The AUD rose 1% over the session and is currently around 68.23 US cents.

Commodities: Crude oil picked up a little as news emerged of a Turkey-Syria ceasefire and a report showed an increased drawdown on US crude stockpiles. WTI futures contracts rose US$0.50 to US$53.9 per barrel. Gold rose slightly.

Australia: The unemployment rate ticked lower to 5.2% in September. The drop was driven by a fall in the participation rate and has partly reversed the recent trend of a rising unemployment rate. There continues to be a risk that the unemployment rate trends higher. Employment growth remains solid. There were 14.7k jobs added to the economy in September following a 37.9k gain in August. The most recent gain was driven by an increase in full-time jobs of 26.2k. Part time employment fell 11.4k. Sluggish leading indicators such as business confidence and conditions and an uncertain global environment point to downside risks for employment growth in the near term. The unemployment rate remains well above the RBA's 4.5% estimate of full employment. While the fall in the unemployment rate in yesterday's data lessens the likelihood that the RBA will lower rates as soon as November, the ongoing risk that the unemployment rate will trend upwards keeps open the case for the RBA to cut rates further.

In a speech yesterday, RBA Deputy Governor Debelle spoke on the housing market and its impact on the economy. It was housing construction which had a key impact on the economy. While the residential construction sector comprises around 2% of employment, just under 6% of employment is related to residential construction, including construction services and manufacturing. Debelle highlighted the risk that dwelling investment could decline more than expected, but that a trough was in sight in 2020.

United Kingdom: Boris Johnson emerged from Brussels with his Brexit plan approved by the EU. The agreement still needs the approval of UK lawmakers who will vote during a special sitting of parliament on Saturday. Northern Ireland's DUP has pledged to reject the deal, putting its prospects of passing too close to call.

If the deal doesn't get through the UK parliament, Johnson is legally obliged to ask the EU for another Brexit extension. However, in the past he has stated that he would "rather be dead in a ditch" than ask for a Brexit delay.

Data for consumer spending showed that retail sales lifted to 3.1% in September from a weak 2.6% in August. Consumer spending has been the main growth driver for the UK since Brexit negotiations began, offsetting a plunge in business investment. On a quarterly basis, growth slowed to 3.1% over the year in Q3 from 3.6% in Q2.

United States: Housing starts retreated from August's 12-year high in September. Housing starts fell 9.4% to a seasonally adjusted 1.256 million units, according to data released by the commerce department. Multi-unit housing was the main driver of the fall, although this segment tends to be volatile. Housing construction in the US has been boosted by a fall in interest rates over recent months and its underlying trend remains strong.

Data for manufacturing showed that output across the sector fell more than expected as ongoing trade tensions and industrial action at car maker GM weighed on activity. The Fed's measure of manufacturing output fell 0.5% in September following a 0.6% rise in August. Even excluding the auto sector, activity was down 0.2%.

There were positive reports on the US-China trade war, with both sides reportedly set to continue talks. China's commerce ministry said it hopes to reach a "phased" agreement with the US which would see all tariffs removed.

Today's key data and events:

JN National CPI Sep y/y exp 0.2% prev 0.3% (10.30am)
CH Industrial Production Sep y/y exp 4.9% prev 4.4% (1.00pm)
CH Retail Sales Sep y/y exp 7.8% prev 7.5% (1.00pm)
CH GDP Q3 y/y 6.1% prev 6.2% (1.00pm)
US Leading Index Sep exp 0.0% prev 0.0% (1.00am)

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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