

Morning Report

Monday, 5 November 2018



Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5849.2	0.1%			Last	Overnight Chg		Australia		
Dow Jones	25270.8	-0.4%	10 yr bond	97.27				10 year bond	2.69	0.05
Nikkei	22243.7	2.6%	3 yr bond	97.86				3 year bond	2.05	0.03
Hang Seng	26486.4	4.2%	3 mth bill rate	98.03				90 day BBSW	1.93	0.01
Shanghai	2803.0	2.7%	SPI 200	5811				United States		
DAX	11519.0	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.21	0.08
FTSE100	7094.1	-0.3%	TWI	62.1	-	-	62.8	2 year bond	2.90	0.06
Commodities (close & change)			AUD/USD	0.7206	0.7259	0.7182	0.7188	3-month T Bill	2.27	0.00
CRB Index	192.3	0.7	AUD/JPY	81.20	81.94	81.03	81.34	Other (10 year yields)		
Gold	1233.0	-0.5	AUD/GBP	0.5541	0.5576	0.5503	0.5511	Germany	0.43	0.03
Copper	6299.0	197.0	AUD/NZD	1.0834	1.0860	1.0810	1.0833	Japan	0.13	0.01
Oil (WTI)	63.1	-0.5	AUD/EUR	0.6316	0.6352	0.6300	0.6303	UK	1.49	0.04

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Reuters, Bloomberg.

Main Themes: US payrolls data highlighted strength in the labour market, with a lift in wages growth garnering investor attention. US government bond yields and the US dollar rose following the payrolls data.

Share Markets: The US stockmarket weakened, led by tech stocks, following a disappointing forecast from Apple Inc. Mixed news on a US-China trade deal weighed on stocks. The Dow fell 0.4%, the S&P 500 was down 0.6% and the Nasdaq lost 1.0%.

Interest Rates: US government bond yields rose sharply with the strong gain in US employment and increase in the pace of wages growth giving weight to expectations of further rate hikes from the Fed.

The yield on the 10-year US government bond rose from 3.13% to 3.21%, earlier touching a one-month high of 3.22%. The yield on the 2-year US government bond rose from 2.84% to finish at 2.90%. It earlier rose towards 2.92%, its highest since 2008.

Australian government bond yields (implied by futures) rose on Friday night, adding to the increase in bond yields in Friday's trade.

Foreign Exchange: The US dollar index rose 0.2% from Friday morning boosted by strong payrolls data. The US dollar gained against the Japanese yen. Sterling weakened versus the US dollar on Friday, but opened stronger this morning, on Brexit hopes. A report that UK Prime Minister Theresa

May had secured concessions that would avoid a hard border with Northern Ireland raised hopes for a Brexit deal.

The Australian dollar strengthened on Friday afternoon, but gave back those gains on Friday night, to finish softer. AUD/USD reached a high of 0.7259 on Friday night, before retracing to currently trade around 0.7187.

Commodities: The oil price edged lower, with WTI oil falling US\$0.50 to US\$63.10 per barrel. This comes after the US said it would temporarily allow eight importers to continue to buy Iranian oil ahead of the reimposition of oil sanctions on Iran today.

Australia: Producer prices rose 0.8% in the September quarter, the strongest increase in three years. The increase mostly reflects the impact of higher oil prices. Annual growth in prices ticked up from 1.5% to 2.1%, which was the highest in just over four years, but remaining low by historical standards.

In September, retail sales edged up just 0.2%. It kept the annual rate steady at 3.7%, which was in line with the ten-year average. The only categories to record increases in September were food and cafes, restaurants & takeaway food services. Other categories of retail spending fell or were flat. There were tentative signs that the weakness in the housing market is having a negative impact on spending. Hardware, building and garden supplies retailing was particularly weak, which is somewhat

associated with spending on home improvements. When taking out the impact of prices, retailing volumes grew just 0.2% in the September quarter, which was the softest gain in 1½ years. It highlights a risk that consumer spending in the national accounts will be soft. The falling household savings rate, high household debt levels and slow wage growth suggests limited scope for stronger growth in consumer spending. Moreover, the downturn in house prices is providing a negative-wealth impact on consumers. Nonetheless, firm job gains and ongoing growth in the population are providing support.

New Zealand: Consumer confidence slipped 1.9% from September to 115.4 in October, its lowest in three years.

United Kingdom: The Markit/CIPS construction PMI beat consensus expectations, rising to 53.2 in October, from 52.1 in September.

United States: Payrolls rose by a larger than expected 250k jobs in October. The unemployment rate held steady at a 49-year low of 3.7%. The labour force participation rate rose to 62.9% in October, from 62.7% in September. Investors focused on the increase in wages growth in October. The annual pace of average hourly earnings growth lifted to a 9½ year high of 3.1% in October, from 2.8% in September.

The trade deficit widened to a seven-month high of US\$54.0bn in September, from a deficit of US\$53.3bn in August. The widening in the deficit reflects strong US demand for imports.

Factory orders beat consensus expectations, rising by 0.7% in September, after rising 2.6% in August. The final reading on durable goods orders for September showed an increase of 0.7%. This followed a jump of 4.6% in August.

Today's key data and events:

AU AiG Perf of Services Oct prev 52.5 (8:30am)

AU MI Inflation Oct y/y prev 2.1% (11am)

AU ANZ Job Ads Oct prev -0.8% (11:30am)

CH Caixin Services PMI Oct exp 52.8 prev 53.1 (12:45pm)

CH Current Account Q3 prev US\$5.3bn (~)

UK Markit/CIPS Services PMI Oct exp 53.4 prev 53.9 (8.30pm)

US Markit Services PMI Oct final exp 54.7 prev 54.7 (1:45am)

US ISM Non-Mfg Oct exp 59.4 prev 61.6 (2am)

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.

Jo Horton, Senior Economist

Ph: 02-8253-6696

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
(02) 8254 3251

Senior Economist

Josephine Horton
hortonj@stgeorge.com.au
(02) 8253 6696

Senior Economist

Janu Chan
chanj@stgeorge.com.au
(02) 8253 0898

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