

# Morning Report

Thursday, 8 November 2018



Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5896.9	0.4%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
Dow Jones	26180.3	2.1%	10 yr bond	97.23	-0.03			10 year bond	2.73	0.00
Nikkei	22085.8	-0.3%	3 yr bond	97.81	-0.05			3 year bond	2.07	0.00
Hang Seng	26147.7	0.1%	3 mth bill rate	98.03	0.00			90 day BBSW	1.94	0.00
Shanghai	2766.1	-0.7%	SPI 200	5905	42			<b>United States</b>		
DAX	11579.1	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.23	0.00
FTSE100	7117.3	1.1%	TWI	62.6	-	-	62.8	2 year bond	2.96	0.03
<b>Commodities (close &amp; change)</b>			AUD/USD	0.7223	0.7300	0.7213	0.7279	3-month T Bill	2.31	0.01
CRB Index	191.3	0.1	AUD/JPY	81.94	82.69	81.88	82.66	<b>Other (10 year yields)</b>		
Gold	1226.1	-1.1	AUD/GBP	0.5516	0.5554	0.5510	0.5541	Germany	0.45	0.01
Copper	6166.0	-11.0	AUD/NZD	1.0829	1.0766	1.0699	1.0735	Japan	0.12	-0.01
Oil (WTI)	61.7	-0.5	AUD/EUR	0.6327	0.6366	0.6319	0.6366	UK	1.53	-0.01

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:** Financial markets took the results of the US mid-term elections positively, although the result of Democrats winning control of the House and Republicans keeping the Senate was widely expected. US share markets surged. Other asset classes were more mixed. The Australian dollar continued to rebound.

**Share Markets:** There was relief in equity markets post the mid-term elections. The Dow jumped 2.1%, while the S&P500 rose 2.0%. The Nasdaq surged 2.6%

**Interest Rates:** US treasury yields were mixed. While stronger risk appetite might have weighed on demand, a divided Congress was viewed as being less conducive to additional fiscal stimulus. US 10-year yields spiked temporarily to 3.25%, but then gave up those gains to end little changed at 3.23%. Meanwhile, US 2-year yields were 3 basis points higher. Markets are pricing in a near 80% probability of a Fed rate hike by December.

**Foreign Exchange:** The US dollar index edged lower. Sterling gained on reports that the UK was preparing for a Brexit agreement by the end of November. The Australian dollar continued to rebound, on the back of US dollar weakness and the improvement in risk appetite. It touched 73 US cents before settling at 72.8 US cents this morning.

**Commodities:** Oil prices slipped on rising US crude output, although there was a report that said that a return to oil production cuts by OPEC and other key

producers could not be ruled out.

**Australia:** The AiG performance of construction index slumped to 46.4 in October, from 49.3 in September. The index is further below 50 signalling more rapid contraction in construction activity. The new orders subcomponent fell to 44.5, while the employment subcomponent lifted, although at 48.0 remains contractionary. By sector, engineering activity continued to expand, while housing and commercial activity contracted and apartments activity fell sharply in October.

**Europe:** Euro zone retail sales was flat in September for a 0.8% annual gain. It was up from annual growth of 2.2% in August.

German industrial production rose 0.2% in September versus expectations for a flat result. Moreover, the 0.3% decline in August was revised upwards to 0.1% in September, providing some indication that activity is picking up after a loss of momentum earlier in the year.

**New Zealand:** The Reserve Bank of New Zealand (RBNZ) left official interest rates unchanged at 1.75%. However, it removed a reference that the next move could be up or down, hinting at a reduced inclination towards a cut in rates. In its place, it stated that "as always, the timing and direction of any future OCR move remains data dependent". Commentary highlighted a pickup in inflationary pressures. Nonetheless, the RBNZ also indicated little chance of a movement in rates

anytime soon, adding that it expected to keep the the OCR at this level through 2019 and into 2020”.

The unemployment rate unexpectedly fell to a 10-year low of 3.9% in Q3, from 4.4% in Q2. Employment rose by 1.1% in Q3, beating consensus expectations for a 0.5% increase, following a 0.6% increase in Q2. The annual pace of employment growth fell to 2.8% in Q3, from 3.7% in Q2. The workforce participation rate lifted to 71.1% in Q3, from 70.9% in Q2.

Private wages including overtime rose 0.5% in Q3, in line with consensus expectations, after rising 0.6% in Q2. Average hourly earnings jumped 1.4% in Q3, which was well above the consensus forecast for a 0.8% increase.

**United States:** Mortgage applications fell 4.0% to their lowest in nearly four years, adding to a range of indicators suggesting weakening housing activity amid higher mortgage rates.

**Today's key data and events:**

NZ RBNZ OCR Decision exp 1.75% prev 1.75% (7am)

US Consumer Credit Sep exp US\$15.0bn prev US\$20.1bn (7am)

JP Machinery Orders Sep exp -9.0% prev 6.8% (10:50am)

JP Current Account Sep exp ¥1786.5bn prev ¥1838.4bn (10:50am)

CH Trade Balance Oct exp US\$31.2bn prev US\$31.7bn (~)

US FOMC Policy Decision exp 2.00-2.25% prev 2.00-2.25% (6am)

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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