Morning Report

Friday, 9 November 2018

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5928.2	0.5%		Last		Overnight Chg		**Australia**		
Dow Jones	26191.2	0.0%	10 yr bond	97.21		-0.03		10 year bond	2.76	0.03
Nikkei	22486.9	1.8%	3 yr bond	97.79		-0.02		3 year bond	2.11	0.04
Hang Seng	26227.7	0.3%	3 mth bill rate	98.03		-0.01		90 day BBSW	1.94	0.00
Shanghai	2760.1	-0.2%	SPI 200	5905		-8		**United States**		
DAX	11527.3	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.24	0.00
FTSE100	7140.7	0.3%	TWI	62.8	-	-	63.0	2 year bond	2.97	0.01
Commodities (close & change)			AUD/USD	0.7279	0.7302	0.7247	0.7255	3-month T Bill	2.31	0.00
CRB Index	189.7	-1.6	AUD/JPY	82.66	83.05	82.52	82.72	**Other (10 year yields)**		
Gold	1223.4	-3.1	AUD/GBP	0.5541	0.5573	0.5535	0.5555	Germany	0.46	0.01
Copper	6170.5	4.5	AUD/NZD	1.0735	1.0759	1.0712	1.0748	Japan	0.12	0.00
Oil (WTI)	60.7	-1.0	AUD/EUR	0.6366	0.6396	0.6356	0.6386	UK	1.57	0.03

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: There was little surprise from the Federal Reserve's decision to leave rates unchanged and it remains on course to lift rates in December. US shares fell, bond yields rose slighty after the decision, while the US dollar rose.

Share Markets: US share markets eased after the post-mid-term election surge in the previous session. The fall was led by tech stocks disappointing earnings results. Meanwhile, the fall in oil prices weighed on energy stocks.

Interest Rates: There was only a minor reaction in US treasuries on the Fed's meeting. Yields on shorter-dated US treasuries lifted slightly with US 2-year yields edging up 1 basis point to 2.97%. US 10-year yields initially slid, but then regained later in the session and extended those gains post the fed meeting to be unchanged at 3.24%. Financial markets are pricing in the chances of a Fed rate hike in December at close to 75%.

Foreign Exchange: The US dollar index lifted after the FOMC, as the Fed suggested little change to its course of raising rates, and paving the way for a hike in December. The recovery in the dollar resulted in retracements in euro and sterling, and also AUD. After flirting with 73 US cents over much of last night, the Australian dollar eased to around 72.6 US cents this morning post the Fed meeting.

Commodities: Oil prices fell, on concerns that record high US crude production would result in a supply glut, in addition to stronger OPEC production and a lesser impact from Iranian sanctions. The stronger US dollar also weighed on commodity prices more broadly.

Australia: No major data to report from yesterday.

China: Both exports and imports grew strongly in the year to October. On an annual basis, exports lifted 15.6% while while imports grew 21.4%. There appears to have been a limited impacted on trade despite the raft of tariffs imposed over the past year, but the robust growth may reflect importers and exporters getting ahead of further tariffs due to take place in January.

Japan: Core machinery orders plunged 18.3% in September, the largest drop on record and well beyond the 9.0% drop expected by markets in August. Natural disasters have negatively impacted on business spending. Moreover, it followed sizeable gains of 6.8% and 11.0% in the previous two months. Nonetheless, the extent of the monthly fall does raise concerns regarding the global outlook, particularly with risks coming from trade tensions.

In the minutes of the Bank of Japan's (BoJ) October meeting, board members discussed the risks of their aggressive monetary policy stimulus program, including a negative impact on bank profits, discouraging lending or taking on excessive risk. One member argued for more flexibility on the bond yield target at zero. However, most indicated a need to maintain current policy.

United States: The Federal Reserve's FOMC left the Fed funds rate on hold as widely expected, and little to surprise in the accompanying statement. The only minor change was a recognition of moderating business investment, however the message of "further gradual increases in the target range for the federal funds rate".

Initial jobless claims edged down 1k to 214k for the week ending November 3, and continue to indicate strength in the labour market.

Consumer credit grew $10.9 billion in September, below the consensus estimate for a $15 billion increase. The weakness came from credit card lending. Higher interest rates could constrain household borrowing further.

Today's key data and events:

AU RBA Statement on Monetary Policy (11:30am)

AU Housing Finance Sep (11.30am)

No. of Owner Occ exp -1.0% prev -2.1%

Value of Investor exp -3.0% prev -1.1%

CH PPI Oct y/y exp 3.3% prev 3.6% (12:30pm)

CH CPI Oct y/y exp 2.5% prev 2.5% (12:30pm)

UK GDP Q3 prev 0.4% (8:30pm)

UK Trade Sep exp -£1.5bn prev -£1.3bn (8:30pm)

UK Indust. Prod'n Sep exp -0.1% prev 0.2% (8:30pm)

US PPI Final Oct exp 0.2% prev 0.2% (12.30am)

US UoM Consumer Sentiment Nov exp 98.0 prev 98.6 (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.

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