

Morning Report

Monday, 16 October 2023



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,051	-0.6%			Last	Overnight Chg		Australia		
US Dow Jones	33,670	0.1%	10 yr bond		4.44	-0.03		90 day BBSW	4.15	0.02
Japan Nikkei	32,316	-0.5%	3 yr bond		3.93	-0.02		2 year bond	4.03	0.05
China Shanghai	3,238	-0.6%	3 mth bill rate		4.22	0.00		3 year bond	3.95	0.04
German DAX	15,187	-1.5%	SPI 200		7,045.0	-30		3 year swap	4.14	-0.02
UK FTSE100	7,600	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.46	0.09
Commodities (close & change)			TWI		60.6	-	-	60.6	United States	
CRB Index	284.0	5.9	AUD/USD	0.6314	0.6334	0.6286	0.6304	3-month T Bill	5.33	-0.02
Gold	1,932.82	63.9	AUD/JPY	94.59	94.89	94.05	94.22	2 year bond	5.05	-0.01
Copper	7,877.50	-41.8	AUD/GBP	0.5186	0.5205	0.5174	0.5195	10 year bond	4.61	-0.08
Oil (WTI futures)	87.69	4.8	AUD/NZD	1.0654	1.0701	1.0638	1.0652	Other (10 year yields)		
Coal (thermal)	150.75	1.3	AUD/EUR	0.5997	0.6007	0.5985	0.5998	Germany	2.74	-0.05
Coal (coking)	340.00	-1.0	AUD/CNH	4.6154	4.6271	4.5964	4.6097	Japan	0.76	0.00
Iron Ore	114.75	0.5	USD Index	106.58	106.79	106.29	106.67	UK	4.39	-0.04

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

Main Themes: The escalation in the Israel-Hamas conflict has caused risk aversion to rise among investors, contributing to a drop in global bond yields and sell off in major global share markets. The Middle-East conflict is fuelling demand for safe-haven assets. The VIX volatility index jumped 2.6 points to 19.3 – its highest since October 3. The rise in the VIX index reflects the rise in investor risk aversion.

Share Markets: It was a sea of red across global share markets on Friday, as risk aversion spiked amid the Israel-Hamas conflict in the Middle East. The US S&P 500 dropped 0.5% and the Nasdaq lost 1.2%. The Euro Stoxx 50 fell 1.5%, the UK FTSE fell 0.6% and the German DAX declined 1.6%.

Interest Rates: Investor demand for safe-haven assets amid rising Middle East geopolitical concerns continued to push up government bond prices over last week. The US 10-year bond yield rose to 4.89% on October 16, its highest level since 2006. That rate fell to a low of 4.58% on Friday, before closing at 4.61%, a decline of 8 basis points on the previous trading session. The decline in the US 2-year yield was more muted due to Friday's data showing a lift in inflation expectations. The US 2-year bond yield fell just 1 basis point to 5.05%. This led to a further inversion of the US 2-10-year curve.

Foreign Exchange: The rise in volatility and risk aversion spurred selling in the Australian dollar. The

AUD/USD fell from a Friday high of 0.6445 to a 2-week low of 0.6286. The AUD/USD is at risk in the short term of moving under 0.6200 (towards 0.6170) with volatility likely to rise amid worries over the Middle East.

Safe-haven demand and higher-than-expected US inflation expectations readings pushed the US dollar index higher. The Swiss franc appreciated with USD/CHF falling from a high of 0.9088 overnight on Friday to 0.8987. We expect the CHF to remain well bid in the current environment of rising Middle East tensions. If the conflict widens and drags on for an extended time, EUR/USD could also strengthen.

Commodities: World crude oil prices posted the largest weekly gain in a month as concerns about oil supply escalated with the escalation of the Israel-Hamas conflict. Hedge funds slashed their bullish oil bets in the week ending October 10 to the lowest net-long level in six weeks.

Australia: The Voice to Parliament referendum has been defeated.

There was no major economic data released on Friday.

Eurozone: Industrial production rose 0.6% in August, after falling by 1.3% in the previous month. It was the strongest monthly growth rate in four months. In annual terms, industrial production contracted 5.5%, the size of the contraction deepening from the previous month.

China: There is speculation that China's financial sector authorities, which includes the China Securities Regulatory Commission and the Ministry of Finance, have submitted a proposal to China's cabinet, the State Council. The submission proposes setting up a stock market stabilisation fund to boost flagging confidence among domestic investors. China has struggled to revive confidence in its capital markets and the broader economy. A property market crisis and a fragile recovery after covid has weighed on China's economic recovery.

That weakness was underlined by an official data release on Friday that showed China again teetered on the edge of deflation last month. The consumer price index (CPI) rose just 0.1% in September, which was below consensus forecasts. The CPI was 0.0% year on year in September, after annual growth of 0.1% in the previous month. Consensus had expected annual growth of 0.2% to be printed.

The producer price index, which measures the price of goods sold by manufacturers, declined 3.0% in September and contracted 2.5% over the year.

Trade data was also released on Friday. It provided better news for policymakers. China's exports fell 6.2% in September compared with the previous year, an improvement from August's decline of 8.8% and beating consensus expectations of a 7.6% contraction. Imports in September also shed 6.2%, better than the previous month's 7.3% decline but slightly missing expectations.

Israel-Hamas: The Israeli government has recommended Palestinians living in north Gaza to move to south Gaza before an on-the-ground offensive takes place. Iran has warned Israel via its allies that it will not stand on the sidelines. The US, Europe and regional governments are trying to prevent the war from engulfing the Middle East amid rising concerns that Iran will escalate the conflict.

Japan: The International Monetary Fund (IMF) said it sees no factors compelling Japan to intervene to support the yen, saying its devaluation reflects economic fundamentals. Finance Minister Shunichi Suzuki earlier said excessive currency moves will require responses.

New Zealand: The next Prime Minister will be Christopher Luxon after voters gave his centre-right National Party a plurality of votes, ejecting Labour. When final results are in, he may need the support of NZ's First Party to form a government.

United States: The preliminary report for the University of Michigan's consumer sentiment index

showed a 5.1-point decline to 63.0 in September. It was the sharpest fall since June of last year. The result was under consensus expectations for a result of 67.0. The sub indexes for both current conditions and expectations fell in the month and printed below consensus forecasts. The current conditions index dropped 4.7 points to 66.7 and the expectations component dropped 5.3 points to 60.7.

Meanwhile, this same report revealed that inflation expectations in the US has risen sharply as concerns about prices grow again among US consumers. US inflation expectations for 1-year ahead rose to a 5-month high of 3.8% in October, from 3.2% in September. US inflation expectations also lifted over the next 5 to 10 years. The measure for this period rose to 3.0% in October, from 2.8% in September.

Today's key data and events:

NZ Perf. of Services Index Sep prev 47.1 (8:30am)

UK Rightmove House Prices Oct prev 0.4% (10:01am)

CH 1-Year Lending Facility Rate Oct exp 2.50% prev 2.50% (12:20pm)

US Empire Mfg Index Oct exp -6.0 prev 1.9 (11:30pm)

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.

Besa Deda, Chief Economist

Ph: +61 404 844 817

Contact Listing

Chief Economist

Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist

Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+ 61 481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist

Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St. George has a contract to supply Information, the supply of the Information is made under that contract and St.George's agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.