

# Morning Report

Wednesday, 17 September 2014



Bank of Melbourne

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5445.4	-0.5%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
Dow Jones	17132.0	0.6%	10 yr bond	96.32				10 year bond	3.62	-0.03
Nikkei	15911.5	-0.2%	3 yr bond	97.11				3 year bond	2.82	-0.02
HangSeng	24136.0	-0.9%	3 mth bill rate	97.36				90 day BBSW	2.64	-0.01
Shanghai	2404.2	-1.8%	SPI 200	5469				<b>United States</b>		
DAX	9632.9	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.59	0.00
FTSE100	6792.2	-0.2%	TWI	70.1	-	-	70.2	2 year bond	0.54	0.00
<b>Commodities (close &amp; change)</b>			AUD/USD	0.9031	0.9112	0.8989	0.9087	3-month T Bill	0.01	0.00
CRB Index	284.4	2.5	AUD/JPY	96.79	97.53	96.37	97.36	<b>Other (10 year yields)</b>		
Gold	1239.2	3.0	AUD/GBP	0.5564	0.5599	0.5549	0.5585	Germany	1.06	-0.01
Copper	6867.0	25.0	AUD/NZD	1.1043	1.1096	1.1022	1.1090	Japan	0.58	0.00
Oil (WTI)	94.9	2.0	AUD/EUR	0.6981	0.7023	0.6952	0.7012	UK	2.52	-0.02

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

**Share Markets:** Risk appetites lifted overnight on a shift in Fed expectations and increased liquidity in China.

Investor expectations regarding the Fed's FOMC meeting shifted overnight as more investors started to speculate the Fed may not be as hawkish as what the market had come to expect in recent trade. Wall Street Journal Fed-watcher Hilsenrath opined the Fed would not change its key guidance a language that rates would remain low for a "considerable period of time".

In other news Sina.com reported that the People's Bank of China injected CNY500bn of fresh liquidity into China's five largest banks.

The US stockmarket gained ground on the bounce in risk appetites, with the Dow up 0.6% and the S&P 500 and the Nasdaq both up 0.8%.

**Interest Rates:** US government bond yields were volatile in the lead up to the FOMC announcement (tomorrow morning 4am AEST), but finished the session little changed, despite improved risk appetites.

Australian three-year government bond future yields rose from 2.84% to 2.90%. The 10-year yield rose from 3.64% to 3.68%.

**Foreign Exchange:** The US dollar index fell sharply on the shifting FOMC expectations and news of China's stimulus measures. EUR/USD rose from 1.2923 to

1.2995, benefitting from the news. USD/JPY fell from 107.33 to 106.31 but later recovered to 107.22.

The Australian dollar outperformed, given its sensitivity to Chinese news, rising from 0.8989 to 0.9112.

**Commodities:** Copper prices rose sharply on hopes of stronger demand from China following the report of increased government stimulus measures.

The oil price jumped after OPEC's secretary general said it may cut output targets next year.

**Australia:** The minutes of the September RBA Board meeting adding nothing new in terms of its interest rate settings or its view on the currency but they did sound a note of caution regarding residential property. It noted that 'additional speculative demand could amplify the property price cycle and increase the potential for property prices to fall.' They also noted the potential for the Chinese property market to disrupt China's financial system.

A speech by RBA Assistant Governor Chris Kent yesterday made the point that non-mining business investment was being held back by a combination of low growth in domestic demand, the impact of the high exchange rate, spare capacity, a lack of confidence and a lower appetite for risk than in the past. He did suggest that, in time, those factors would dissipate and investment would increase.

**Europe:** German ZEW analysts' survey showed expectations down from 8.6 in August to 6.9 in September. Current conditions slumping from 44.3 in August to 25.4 in September, almost as steep as the fall recorded ahead of the 2011 European recession.

Separately, Eurozone labour costs accelerated from 0.6% in the year to Q1, to 1.2% in the year to Q2, still in a mild downtrend from 2+% in annual terms in 2011-13.

**United Kingdom:** UK CPI fell from 1.6% in the year to July to 1.5% in the year to August, as food prices fell 0.9% for the year to August, their steepest fall in over ten years, reflecting the supermarket price war. But the core CPI edged up from 1.8% in the year to July to 1.9% in the year to August.

**United States:** US PPI final demand was flat in August, as services prices up 0.3% were offset by a 0.3% fall in goods prices.

Meanwhile, in July, TIC data showed \$25bn worth of net long term inflows, after \$18bn outflows in June.

#### Today's key data and events

NZ Current Acc. Q2 exp NZ\$1.0bn prev NZ\$1.4bn (8.45am)  
 AU WBC Leading Index Aug prev -0.1% (10.30am)  
 CN MNI Business Indicator Sep (11.45am)  
 UK Bank of England Minutes Sep (6:30pm)  
 UK Jobless Claims Chg Aug exp -30.0k prev -33.6k (6.30pm)  
 UK ILO Unempl. Rate Jul exp 6.3% prev 6.4% (6.30pm)  
 EZ CPI Aug final y/y exp 0.3% prev 0.3% (7pm)  
 US CPI Aug y/y exp 1.9% prev 2.0% (10.30pm)  
 US Current Acc. Q2 exp -\$113.4 prev -\$111.2bn (10.30pm)  
 US NAHB Housing Index Sep exp 56 prev 55 (12am)  
 US Fed (FOMC) Meeting Sep 16-17 (4am)  
 Monthly Pace of QE exp \$15bn prev \$25bn  
 Rate Decision exp 0.25% prev 0.25%

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are house forecasts and for other countries are consensus forecasts.

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