

2021 October Market Wrap

Friday 1 November 2021

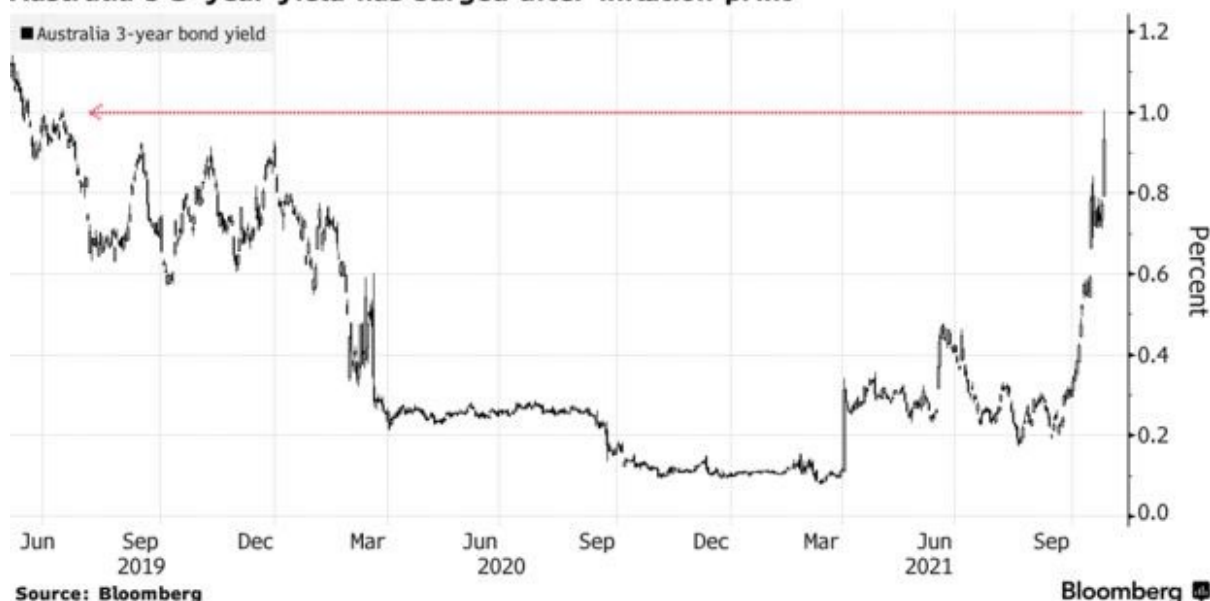
October 2021 will be marked as the turn point for inflation and Interest rates in Australia. Australia's three-year bond yield climbed to the highest level since July 2019 after consumer inflation picked up pace in the September quarter, strengthening rate-hike bets.

Yields rose as much as 24 basis points to 1.01% after trimmed mean inflation for the third quarter (Australia 3Q trimmed mean CPI rises 2.1% Y/Y, Est 1.8%) a measure which feeds into the Reserve Bank of Australia's policy -- rose 2.1% to beat economist estimates. The April 2024 bond yield rose to the highest relative to the RBA target since it began a yield curve control program last year. Australian Ten-year Bond yields closed at 2.08% highest level since Feb-2019.

The bond selloff mirrors that of New Zealand last week, which had recorded its fastest pace of inflation in a decade as traders bet that consumer cost pressures are getting entrenched.

Betting Big

Australia's 3-year yield has surged after inflation print



Inflation has begun its ascent earlier than many central bank officials expected and current price pressures suggest they are unlikely to be transitory," For markets, the question is whether this sell-off in rates is done?

Swap traders have priced in three hikes by the RBA by end-2022, to take the cash rate up to 0.75%, based on OIS futures. That's in contrast with RBA's stance, with Governor Philip Lowe saying that he doesn't see conditions for a rate rise emerging before 2024.

Australia's bond yields have been on the rise since late September, tracking Treasuries, after Federal Reserve Chair Jerome Powell said the U.S. central bank could start scaling back its bond purchases as soon as November.



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The upward pressure on Aussie yields has also come from expectations of a growth rebound, after the nation's state governments announced the end to long-standing lockdowns in the nation's two largest cities. The federal government has committed to reopen the country to international travellers.

The surge in yields had forced the RBA back to defend its 0.1% bond-yield target Friday, for the first time in eight months, raising doubts on potential central bank tightening.

All eyes will be on the RBA rate decision Tuesday, rates will not change. The key will be the statement following.

- Inflation/Growth/Employment - Projections
- Bond purchasing -yield target
- Rate increase timing

The key risks the RBA move rates to late, inflation take off leading to bigger interest rate increases. Move to early stop the recovery. Rates are increases it is a matter of when!

If you have any questions do not hesitate to contact me.

Summary of Major share indices

Index	1 Month	52 Weeks	YTD
DJIA	+4.35%	+35.16%	+17.03%
Nasdaq	+6.40%	+42.04%	+20.25%
S&P 500	+5.70%	+40.84%	+22.61%
Russel 2000	+2.48%	+49.32%	+16.32%
Europe 600 Index	+4.99%	+38.89%	+19.17%
UK FTSE 100 Index	+3.00%	+29.77%	+12.03%
Hong Kong Hang Seng	+3.26%	+5.27%	-6.81%
Japan Nikkei 225	+0.42%	+25.75%	+5.28%
China Shanghai Composite	-0.58%	+10.01%	+2.14%
India S&P BSE Sensex	+0.92%	+49.71%	+24.20%
ASX 200 (Australia)	-0.10%	+23.55%	+14.71%

Australian Dollar

	Close	52 week Range
AUD	0.7228%	0.6992-0.8008%

Government Bonds

	Close	52 week Range
US 3 Month Bill	0.058%	0.003-0.114%
US 10 Years Note	1.560%	0.715 – 1.778%
US 30 Years Bond	1.934%	1.423 – 2.515%
Australia 10 years	2.088%	0.734-2.088%

Source: Wall Street Journal.