– DAILY COMMENTARY BY THE CURVE TEAM –

MARKET FUNK INTENSIFIES AS RISING RATES WEIGH ON OUTLOOK

11th of October, 2018

After a few days of threatening to sell off, the pressure value finally gave way last night with equity markets plunging. In Australia consumer confidence consolidated according to the latest survey but like the business survey, the subcomponents tell a different story.

When the US long bond yields spiked a week ago, equity and currency markets largely tried to overlook the move. Buyers stepped in the previous three sessions to lift equites off their lows while the USD generally drifted lower. Last night the buyers were missing as Equities plunged and the USD gained the ascendency once again.

Trying to pin point the catalyst for such a move like the one seen overnight is extremely difficult. While many point to the rise in interest rates, if that were the sole reason, the market should have tanked days ago. Going into the close, bond yields actually pull back from their recent highs.

It is more likely the weight of a number of factors, one one of which is the rise in interest rates.

On that, there was more strong rhetoric overnight from the Chicago Fed President Charles Evans. He said overnight that the US economy was doing *“extremely well”* and that *“we could move to a slightly restrictive policy stance and probably pause at that point and see how things are going.”* It is one of the reasons bond didn’t react as much as they usually would when equity markets fall like they did.

Also weighing on sentiment was more comments from Treasury Secretary Steve Mnuchin who was speaking on the trade battle with China.

He indicated that any trade deal with China would need to include a clause around their currency, saying that *“As we look at trade issues there is no question that we want to make sure China is not doing competitive devaluations”*. That shows just how far we are away from the US-China trade war being resolved.

In Australia yesterday we got the latest update on consumer sentiment. Much like the business survey, consumer sentiment largely consolidated over the past month with no real catalyst for a large swing in either direction.

Also like the business survey, some of the subcomponents deserve close attention. Westpac highlighted in the release that *“the sub-group detail showed sentiment amongst households with a mortgage continued to weaken in October,*

dipping a further 0.8% to be down 6.4% over the last two months.”

The deterioration in the housing market is also having an impact with the time to buy a dwelling index falling further over the last month. House price expectations are also softening, especially in NSW and Victoria.

The key takeaway remains that for now the deterioration in housing market has not spread. These survey’s will help identify the second round effects which can have a more profound effect on the broader economy.

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