

Morning Report

Thursday, 2 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,527	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	35,313	-0.1%	10 yr bond	98.75		0.03		90 day BBSW	0.01	0.00
Japan Nikkei	28,451	1.3%	3 yr bond	99.59		0.02		2 year bond	0.01	0.00
China Shanghai	3,739	0.7%	3 mth bill rate	99.99		0.00		3 year bond	0.29	0.05
German DAX	15,824	-0.1%	SPI 200	7,467.0		-6		3 year swap	0.45	0.01
UK FTSE100	7,150	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.24	0.09
Commodities (close & change)*			TWI	61.2	-	-	61.1	United States		
CRB Index	218.0	-0.2	AUD/USD	0.7316	0.7384	0.7308	0.7367	3-month T Bill	0.04	-0.01
Gold	1,813.90	0.3	AUD/JPY	80.47	81.23	80.44	81.06	2 year bond	0.21	0.00
Copper	9,525.25	111.5	AUD/GBP	0.5318	0.5354	0.5317	0.5350	10 year bond	1.29	-0.02
Oil (WTI)	68.25	-0.3	AUD/NZD	1.0378	1.0435	1.0376	1.0422	Other (10 year yields)		
Coal (thermal)	173.10	3.1	AUD/EUR	0.6194	0.6228	0.6192	0.6222	Germany	-0.37	0.01
Coal (coking)	258.33	3.7	AUD/CNH	4.7216	4.7607	4.7196	4.7537	Japan	0.03	0.01
Iron Ore	143.00	1.9	USD Index	92.7	92.8	92.4	92.4	UK	0.69	-0.02

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

Main Themes: US equity markets remained elevated despite weaker-than-expected private sector jobs numbers. The US dollar fell, with the AUD/USD pair increasing to a three-week high following strong Australian GDP data.

Share Markets: Investors focussed their attention on defensive mega cap stocks following weaker-than-expected private sector jobs numbers. The US S&P 500 was little changed on the day, while the NASDAQ rose 0.3%.

The ASX 200 was down 0.1%. Futures are suggesting that it will open lower today.

Interest Rates: US interest rates fell on the day. The US 10-year bond yield fell 2 basis points to 1.29%. The 2-year yield was broadly unchanged at 0.21%.

The Australian 10-year government bond yield (futures) fell from 1.28% to 1.25%. The 3-year futures yield fell from 0.43% to 0.41%.

Foreign Exchange: US dollar was weaker against most major currencies. The USD Index fell from a high of 92.8 to a low of 92.4.

The AUD/USD pair increased to a three-week high. The pair rose from a low of 0.7308 to a high of 0.7384. It is trading around 0.7367 at the time of writing.

Commodities: Iron ore, coal and copper rose. Gold and oil were broadly unchanged.

COVID-19: NSW recorded 1,116 new cases

yesterday. Victoria recorded 120 cases and the ACT recorded 23 new cases.

Australia: Economic activity marched ahead at a strong clip in the June quarter. The Australian economy grew at 0.7% in the June quarter, beating consensus expectations of a 0.4% rise. This means economic activity was 1.6% above the pre-pandemic level in the quarter.

Growth moderated after the strong rebound over recent quarters, partly reflecting that the economy was shifting from recovery to expansion. In annual terms, the economy grew 9.6% in the year to June, the strongest on record. However, this mostly reflects base effects.

Household consumption rose 1.1% in the quarter, driven by a further pick up in spending on services as restrictions eased. Business investment picked up 2.3%, largely reflecting an ongoing increase in spending on machinery and equipment, in response to government tax incentives.

Government spending also provided a sizeable boost while the trade sector and inventories dragged on growth.

Most industries recorded growth in the June quarter. All states and territories grew at solid rates in the June quarter, despite snap lockdowns in several states.

While the June quarter seems like old news, these

data are an encouraging sign that the economy was in good shape ahead of the delta outbreak. Of course, the focus now is how deep the contraction will be in the September quarter, and how quickly the economy bounces back.

We are anticipating the economy to return to growth in the December quarter but there is some risk of a U-shape recovery rather than a V-shape, as was the case following past lockdowns.

Separately, the housing boom continued to push ahead in August, albeit at a slower pace, despite disruptions from lockdowns.

CoreLogic's national home value index increased 1.5% in the month. In annual terms, dwelling prices increased 18.4%. This is a huge figure, marking the strongest growth since the late 1980s, or over 32 years.

The monthly rate of growth slowed for the fourth consecutive month, likely reflecting affordability constraints pushing price-sensitive buyers out of the market following the dramatic run up in prices.

Lockdowns have underpinned a fall in listings, and to a lesser extent a decline in sales volumes, but there has not been a clear impact on prices.

The broad-based strength in price gains continued in August. Every capital city, aside from Darwin, posted growth in the month. On an annual basis, dwelling price growth is in the double digits across all capital cities and regional areas.

China: The Caixin manufacturing purchasing managers' index dropped to 49.2 in August, down from 50.3 in July. This marks the first time factory activity slipped into a contraction since mid 2020, as COVID-19 containment measures, supply bottlenecks and high raw material prices continued to weigh on businesses.

Europe: The final reading of the August Markit manufacturing PMI came in at 61.4. This was slightly lower than the preliminary reading of 61.5.

The Eurozone unemployment rate fell to 7.6% in July. This was in line with consensus expectations and below the revised 7.8% rate in June. Labour demand has continued to improve as economies reopen and recover. The unemployment rate is 0.5 percentage points above historic lows of 7.1% in March 2021.

United Kingdom: House prices rebounded strongly in August, rising 2.1%, marking the second largest gain in 15 years. This followed a revised 0.6% decline in July after a tax break on purchases was tapered. Over the year, house prices grew 11.0%.

Strong underlying demand and a shortage of supply are underpinning the momentum in the market.

The final reading of the August Markit manufacturing PMI came in at 60.3. This was slightly higher than the preliminary reading of 60.1. The index has fallen over recent months as manufacturing growth momentum has been impacted by severe disruptions to supply chains and raw material shortages.

United States: The ADP national employment report showed that private sector employment increased by 374k jobs in August. This was below consensus expectations of a 625k increase but was up on a revised result for the prior month of 326k. Employers continue to report difficulty and hiring challenges to fill a record number of vacant positions. The spread of the delta variant is also causing uncertainty in employment in the hospitality sector.

Activity in the manufacturing sector rose in August. The ISM manufacturing index increased from 59.5 in July to 59.9 in August. This was above consensus expectations of 58.5. Strong order growth, increased optimism and higher production supported activity. Growth in demand, price increases and supply constraints were noted. Hiring difficulties amid a tight labour market were also noted in the survey.

Separately, the final reading of the August Markit manufacturing PMI came in at 61.1, slightly lower than the preliminary reading of 61.2.

Construction spending rose 0.3% in July. This was above consensus expectations of 0.2% and up on the revised June outcome of 0.0%. Increases were driven by growth in home building. Demand for housing remains very strong supported by a low interest rate environment. Other forms of construction, including commercial and government projects also increased in the month. Spending by state and local governments is being supported by federal fiscal policy.

Today's key data and events:

NZ Terms of Trade Q2 exp 0.3% prev 0.1% (8:45am)
AU Trade Bal. Jul exp \$12.3bn prev \$10.5bn (11:30am)
AU Housing Finance (11:30am)
Total Jul exp 1.0% prev -1.6%
Owner-occupier Jul exp -3.0% prev -2.5%
Investor Jul exp 5.0% prev 0.7%
EZ PPI Jul y/y exp 11.0% prev 10.2% (7pm)
US Initial Jobless Claims 28 Aug exp 345K prev 353K
(10:30pm)
US Trade Bal. Jul exp -\$71.0bn prev -\$75.7bn (10:30pm)
US Factory Orders Jul exp 0.3% prev 1.5% (12am)
US Dur. Goods Orders Jul F. exp -0.1% prev -0.1% (12am)

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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