Morning Report

bankSA

Thursday, 3 June 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,218	1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,600	0.1%	10 yr bond	98.39		0.01		90 day BBSW	0.03	0.00
Japan Nikkei	28,946	0.5%	3 yr bond	99.80		0.00		2 year bond	0.05	0.00
China Shanghai	3,770	-0.8%	3 mth bill rate	99.97		-0.01		3 year bond	0.28	0.01
German DAX	15,603	0.2%	SPI 200	7,229.0		16		3 year swap	0.34	0.00
UK FTSE100	7,108	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.68	-0.01
Commodities (close & change)*			TWI	63.6	-	-	63.7	**United States**		
CRB Index	209.3	0.8	AUD/USD	0.7753	0.7773	0.7716	0.7753	3-month T Bill	0.01	0.00
Gold	1,908.38	7.9	AUD/JPY	84.87	85.19	84.77	84.94	2 year bond	0.14	-0.02
Copper	10,134.15	-102.4	AUD/GBP	0.5478	0.5488	0.5458	0.5471	10 year bond	1.59	-0.02
Oil (WTI)	68.80	1.1	AUD/NZD	1.0683	1.0719	1.0680	1.0710	**Other (10 year yields)**		
Coal (thermal)	110.40	-2.0	AUD/EUR	0.6349	0.6358	0.6329	0.6349	Germany	-0.20	-0.02
Coal (coking)	160.00	-1.0	AUD/CNH	4.9494	4.9570	4.9263	4.9492	Japan	0.08	0.00
Iron Ore	196.50	-1.8	USD Index	89.9	90.2	89.9	89.9	UK	0.80	-0.03

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Financial markets mostly stuck to tight trading ranges, despite the US Federal Reserve's Beige Book suggesting higher prices might be forthcoming.

Share Markets: US share markets finished higher overnight. The Dow added 25 points (or +0.1%), the S&P 500 index rose 6 points (or +0.1%) and the Nasdaq was 20 points higher (or +0.2%).

Interest Rates: US government bond yields for the 2-year maturity fell 2 basis points. The US 10-year bond yield also fell 2 basis points to 1.59%, despite the US Beige Book report suggesting growth is stronger in the US and inflationary pressures are rising.

Foreign Exchange: The Australian dollar remained range bound, but within its month-long range fell from a high of 0.7773 against the US dollar to a low of 0.7716.

Commodities: Oil prices rose further overnight. Gold pushed up, but copper and iron ore prices retreated.

COVID-19: Victoria's COVID-19 lockdown has been extended by another seven days go to the end of June 10. The latest data shows there were 6 additional cases acquired locally in Victoria in the past 24 hours, taking the total number in this outbreak to 54.

The NSW government has published several venues of concern associated with confirmed cases of COVID-19 who were in Southern NSW between 19 and 24 May.

Australia: The remarkable recovery continued in the March quarter of 2021. The Australian economy grew by a stronger than expected 1.8% in the quarter, beating consensus expectations for a rise of 1.5%.

Economic activity has now recovered to its pre-pandemic level. Indeed, the economy is now 0.8% bigger than what it was before the pandemic. It is one of only a few countries around the world that have already recovered the output lost during the pandemic.

Consumer spending has led the charge in this recovery. Consumer spending continued to underpin economic activity in the March quarter, helped by falling unemployment, low rates and elevated confidence. There was a noticeable lift in spending towards services, despite snap lockdowns in some states in the quarter.

The household saving ratio edged down to 11.6%, from 12.2% in the quarter, although remains high relative to pre-pandemic levels. The evolution of saving behaviour is a key uncertainty for the outlook. We expect the saving ratio will continue to fall, which in turn will support consumer spending.

Importantly, there was also a big lift in business investment, especially on machinery and

equipment. Business investment surged 3.6% in the quarter, building on the recovery that started in the December quarter last year. Generous tax incentives have helped revive the appetite to spend, especially for machinery and equipment.

Most industries recorded growth in the March quarter. The overarching theme is that industries benefitting from the reopening of the economy had the strongest growth in the quarter.

The RBA's Head of Economic Analysis, Bradley Jones, said yesterday that the pandemic is unlikely to leave lasting economic scars. Jones said the size of the government policy response put household and business balance sheets in better shape than before the pandemic. He added that the presence of these significant surplus savings, combined with the wealth effect from higher asset prices, raised the risk that households would undertake a period of unusually strong consumption. Jones said that were this to eventuate, the unemployment rate would decline at a faster pace and to a lower level than assumed in the RBA's baseline scenario, and inflation would pick up more rapidly.

Jones's remarks follow a less dovish statement from the RBA after their board meeting on Tuesday.

New Zealand: The terms of trade rose by 0.1% in the March quarter to be up 0.9% over the year. Export volumes fell 1.9% led by meat, fish, and non-fuel crude materials, whilst import volumes rose 9.6% led by electrical machinery.

United States: The Beige Book said the US economy expanded at a moderate pace between early April and late May and described this pace as "a somewhat faster rate than the prior reporting period". Several Federal Reserve districts cited the positive effects on the economy of increased vaccination rates and relaxed social-distancing measures, while they also noted the adverse impacts of supply-chain disruptions. The effects of expanded vaccination rates were noted as most notable in consumer spending with increases in leisure travel and restaurant spending.

There were reports of "widespread shortages of materials and labour along with delivery delays" in manufacturing and construction.

The Beige Book also reported that price pressures increased further since the last report, especially for input costs. Looking forward, contacts "anticipate facing cost increases and charging higher prices in coming months".

Today's key data and events:

AU Trade Balance Apr exp $9.3bn prev $5.6bn (11:30am)

AU Retail Sales Apr Final exp 1.1% prev 1.1% (11:30am)

CH Caixin Services PMI May exp 56.2 prev 56.3 (11:45am)

EZ Markit Services PMI May Final exp 55.1 prev 55.1 (6:00pm)

UK Markit/CIPS Services PMI May exp 61.8 Final prev 61.8 (6:30pm)

US ADP Employment Change May exp 650k prev 742k (10:15pm)

US Markit Services PMI May final exp 70.1 prev 70.1 (11:45pm)

US ISM Non-Mfg May exp 63.0 prev 62.7(12:00am)

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: 02-8254-3251

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

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 BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA 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 BankSA products and details are available. BankSA 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. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.