Morning Report

Friday, 3 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,486	-0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,444	0.4%	10 yr bond	98.82		0.00		90 day BBSW	0.01	0.00
Japan Nikkei	28,544	0.3%	3 yr bond	99.71		-0.01		2 year bond	0.01	0.00
China Shanghai	3,770	0.8%	3 mth bill rate	99.98		-0.01		3 year bond	0.27	-0.02
German DAX	15,841	0.1%	SPI 200	7,479.0		18		3 year swap	0.43	0.00
UK FTSE100	7,164	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.21	-0.04
Commodities (close & change)*			TWI	61.1	-	-	61.6	**United States**		
CRB Index	220.0	2.0	AUD/USD	0.7367	0.7409	0.7356	0.7402	3-month T Bill	0.04	0.00
Gold	1,809.66	-4.2	AUD/JPY	81.06	81.53	80.89	81.37	2 year bond	0.21	0.00
Copper	9,333.25	-192.0	AUD/GBP	0.5350	0.5367	0.5341	0.5350	10 year bond	1.28	-0.01
Oil (WTI)	69.99	1.4	AUD/NZD	1.0422	1.0436	1.0399	1.0405	**Other (10 year yields)**		
Coal (thermal)	175.05	2.0	AUD/EUR	0.6222	0.6247	0.6214	0.6233	Germany	-0.39	-0.01
Coal (coking)	274.50	16.2	AUD/CNH	4.7537	4.7778	4.7497	4.7734	Japan	0.04	0.01
Iron Ore	139.55	1.1	USD Index	92.4	92.5	92.2	92.2	UK	0.68	-0.01

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: Risk sentiment improved and US equities rose ahead of a key US jobs report tonight. The US dollar fell against other major currencies. The AUD continued to recover to a one-month high.

Share Markets: The S&P 500 rose by 0.4% to a new record high. Commodity, industrial and financial companies were the major beneficiaries. While technology shares underperformed, the tech-heavy NASDAQ was also up 0.1%.

The ASX 200 fell 0.5% yesterday. Futures are pointing to a positive open today.

Interest Rates: US interest rates were little changed. The US 10-year bond yield fell 1 basis point to 1.28%. The 2-year yield remained broadly unchanged at 0.21%.

The Australian 10-year government bond yield (futures) fell from 1.20% to 1.19%. The 3-year futures yield traded at 0.29%.

Foreign Exchange: The US dollar fell against all major currencies. The USD Index fell from a high of 92.5 to a low of 92.2, a one-month low.

The AUD/USD pair rose from 0.7356 to a one-month high of 0.7409, near a key resistance level around 0.7420. It has retracted slightly and is trading at 0.7402 at the time of writing.

Commodities: Coal, oil and iron ore were up on the day. Gold fell in line with an improvement in risk sentiment. Copper also slipped.

COVID-19: NSW recorded 1,288 new cases yesterday. Victoria recorded 176 cases, the ACT recorded 12 new cases and Queensland recorded 1 new case.

Australia: Lending for housing was broadly unchanged in July, excluding refinancing, despite lockdowns in NSW and across other parts of Australia. The value of housing lending approvals, excluding refinancing, was up 0.2% in July, to be 68.2% higher over the year.

There were offsetting movements across the states. Counterintuitively, lending in NSW increased 6.5% in July to hit a new record high. Lenders reported this reflected processing of loan applications from prior to the lockdown. Excluding NSW, lending was down 1.5% in July.

Borrowers have jumped to take advantage of lower interest rates with refinancing reaching an all-time high. This is particularly the case for fixed rate loans. Refinancing was up 6.0% in the month to be up almost 60% up on a year ago.

The unwind of the HomeBuilder bring-forward continued. Lending to owner-occupiers edged down a modest 0.4% in the month. Lending for construction, which was boosted significantly by HomeBuilder, fell 4.7% in the month and is now 41.9% below its peak in February 2021.

Investor lending grew 1.8% in the month, to be 98.7% higher than a year ago. This is the ninth consecutive month of growth. Investor lending is at its highest level since April 2015.

Mounting affordability pressures continued to impact first-home buyers. The number of loans to first-home buyers fell for the sixth consecutive month, to be 6.8% lower in July.

Lockdowns are disrupting housing activity, underpinning falls in sales volumes in NSW and Victoria. However, looking beyond immediate effects, monetary policy remains accommodative, interest rates are low, and demand remains robust. This will support lending as restrictions lift.

Separately, Australia's trade surplus widened to a fresh record high of $12.1 billion in July, up from a revised $11.1 billion in June. The surplus was driven by exports jumping 4.8%, reflecting high commodity prices, particularly iron ore. Imports rose 3.3%.

Europe: The producer price index (PPI) rose by 2.3% in July. This was above consensus expectations of a 1.8% increase and up on the June outcome of 1.4%. Annual growth rose to be 12.1% higher over the year, above consensus expectations of 11.1%. This was the highest annual growth rate since the early 1980's. However, the annual rate is impacted by pandemic-related base effects from the year prior. Even so, the stronger-than-expected reading raises the prospects of tightening of monetary policy by European authorities sooner-than-expected.

New Zealand: The terms of trade rose by 3.3% in the June quarter, beating consensus forecasts of a 0.3% gain. The increase was driven by rising global commodity prices, particularly for dairy and forestry products. Export prices for goods rose 8.3%, while export volumes rose 2.9%. Import prices rose 4.8%, largely driven by rising prices for crude oil and petrol. Import volumes also rose 4.4%.

United States: The trade deficit reduced from a record high in June to $70.1 billion in July. This was lower than consensus expectations of $70.9 billion and down on a revised June figure of $73.2 billion. A rise in exports to the highest level since 2019 helped to reduced the deficit. Imports of goods also fell reflecting continued supply constraints and a transition back towards consumption of services domestically as restrictions ease.

Weekly jobless claims were lower-than-expected and fell to a new pandemic low. Initial claims for the week ending 28 August were 340k, below consensus expectations of 345k and down on a revised estimate for the prior week of 354k.

Factory orders rose 0.4% in July. This was above consensus expectations of a 0.3% and down on June growth of 1.5%. Demand in the manufacturing sector remains high but concerns around supply constraints and labour shortages continue.

The final July estimate for durable goods orders was in line with the preliminary estimate of a 0.1% fall.

Atlanta Fed President Bostic noted that it would be "reasonable" for the Federal Reserve to begin tapering bond purchases in October if improvements in the labour market continue. He also noted that he would prefer the taper to completed quickly, even "towards the end of Q1" in 2022.

Today's key data and events:

CH Caixin Service PMI Aug exp 52.0 prev 54.9 (11:45am)

EZ Markit Serv. PMI Aug Final exp 59.7 prev 59.7 (6pm)

UK Markit/CIPS Services PMI Aug Final exp 55.5 prev 55.5 (6:30pm)

EZ Retail Sales Jul exp 0.0% prev 1.5% (7pm)

US Non-farm Payrolls Change Aug exp 725k prev 943k (10:30pm)

US Unemployment Rate Aug exp 5.2% prev 5.4% (10:30pm)

US Average Hourly Earnings Aug exp 0.3% prev 0.4% (10:30pm)

US Markit Services PMI Aug Final exp 55.2 prev 55.2 (11:45pm)

US ISM Non-Mfg Aug exp 61.8 prev 64.1 (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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