

Morning Report

Friday, 4 June 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,260	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	34,577	-0.1%	10 yr bond	98.38				90 day BBSW	0.03	0.00
Japan Nikkei	29,058	0.4%	3 yr bond	99.80				2 year bond	0.04	-0.01
China Shanghai	3,757	-0.4%	3 mth bill rate	99.98				3 year bond	0.27	-0.01
German DAX	15,633	0.2%	SPI 200	7,265.0				3 year swap	0.34	0.00
UK FTSE100	7,064	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.67	-0.02
Commodities (close & change)*			TWI	63.7	-	-	63.7	United States		
CRB Index	207.5	-1.8	AUD/USD	0.7753	0.7754	0.7646	0.7660	3-month T Bill	0.01	0.00
Gold	1,870.76	-37.6	AUD/JPY	84.94	84.99	84.31	84.51	2 year bond	0.15	0.04
Copper	10,134.15	-102.4	AUD/GBP	0.5471	0.5471	0.5425	0.5430	10 year bond	1.63	0.04
Oil (WTI)	68.94	0.1	AUD/NZD	1.0710	1.0734	1.0703	1.0724	Other (10 year yields)		
Coal (thermal)	102.70	-1.1	AUD/EUR	0.6349	0.6349	0.6309	0.6316	Germany	-0.18	0.02
Coal (coking)	162.67	2.7	AUD/CNH	4.9492	4.9492	4.8935	4.9016	Japan	0.08	0.00
Iron Ore	196.50	-4.5	USD Index	89.9	90.6	89.9	90.5	UK	0.84	0.04

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: Strong US data reignited concerns the Federal Reserve may tighten sooner than indicated. US stocks were down, yields rose and the US dollar strengthened.

Share Markets: Equity markets were mixed. US stocks fell on concerns the Federal Reserve might withdraw its support sooner than expected on the back of solid US data. The falls were partly offset after President Biden reportedly indicated he may be open to a lower corporate tax rate than 28%. The Dow finished down 0.1% while the S&P 500 fell 0.4%.

Meanwhile in Europe, the Dax edged 0.2% higher. The ASX 200 rose 0.6%.

Interest Rates: US 10-year treasury yields rose 4 basis points to 1.63% while Australian 10-yields slipped 2 basis points lower.

Foreign Exchange: The Australian dollar depreciated against the US dollar moving from 0.7753 to 0.7660, touching its lowest level since mid-April. The US dollar strengthened.

Commodities: Commodity prices were broadly weaker as concerns mounted over inflation and a potential reduction in stimulus.

COVID-19: Global COVID-19 vaccinations have reached 2 billion doses. At the current pace, it will take nine more months to vaccinate 75% of the world's population, the threshold some report as

providing herd immunity.

Australia: Australians have been splashing cash at the shops and online since the onset of the pandemic and this continued through April, with retail sales increasing 1.1% in the month. The growth was broad-based, notwithstanding a couple of weak pockets driven by idiosyncratic factors.

While sales have been volatile in recent months, as retailers have battled snap lockdowns and interstate border closures, the underlying trend remains very strong. Retail sales are now up 11.8% relative to their pre-COVID level in December 2019.

We are seeing a rebalancing back towards pre-pandemic shopping patterns. In April, spending at cafes and restaurants edged back to its pre-pandemic level. In contrast, spending on food (ie. grocery stores) has been declining in recent months, although increased a little in April.

Spending at department stores was a weak spot in April, down 6.7%, off the back of a surge in spending in March alongside the closure of a number of Target stores.

Retail sales expanded across most of the states. WA was the notable exception, where sales fell 1.5% alongside a three-day lockdown.

The outlook for consumer spending is strong, supported by ongoing improvements in the labour market, low interest rates, further growth in

dwelling prices and the vaccine rollout. However, the reopening of services will likely see a continuation of the reversal back to pre-COVID spending patterns, which could weigh on some retail segments. In addition, the 14-day lockdown in Victoria will dampen spending in the coming months.

In other data, Australia's trade balance widened in April, up from \$5.8bn to \$8.0bn, broadly in line with the market median of \$8.3bn.

Imports fell by 3.2% in April, after to back-to-back gains of 4.7% and 4.5% in February and March.

Export rose by 3.0% in April. Coal exports bounced back, up \$0.5bn, following the flood related disruptions in March which saw a decline of \$0.4bn. Metal ores lifted by \$0.3bn due to higher iron ore prices and rural goods rose by a further \$0.2bn due to improved seasonal conditions.

China: China's services sector expansion slowed in May, as weaker overseas demand and increased costs put pressure on businesses. The Caixin services purchasing managers' index (PMI) fell to 55.1 in May, down from 56.3 in April.

The Caixin composite output index also fell from 54.7 in April to 53.8 in May.

Europe: The services PMI for May came in at 55.2 in May, slightly stronger than expected, as the services sector benefits from the reopening of the economy.

United Kingdom: The services PMI was also better than expected in the UK, with a reading of 62.9 in May.

United States: There was a raft of strong-than-expected US data released overnight. The ADP jobs report showed 978k jobs were added in May, well above the 650k expected and the largest increase since June 2020. Initial jobless claims fell to 385k, down from 406k last week, and the first time below 400k since the start of the pandemic. Meanwhile, the services PMI and ISM services index both climbed to new highs of 70.4 and 64.0 in May.

President Biden has reportedly proposed a corporate tax floor of 15%, setting aside earlier an plan to raise corporate tax rates as high as 28%, which was unpopular with Republicans.

Mixed messaging from the Fed continued overnight. New York Fed President Williams said now is not the time to talk about tapering while Dallas Fed President Kaplan reiterated he would like to start taper talk sooner rather than later.

Today's key data and events:

AU Housing Finance Apr (11:30am)

Total Apr exp 3.0% prev 5.5%

Owner-occupier Apr exp 0.0% prev 3.3%

Investor Apr exp 10.0% prev 12.7%

EZ Retail Sales Apr exp -1.5% prev 2.7% (7:00pm)

US Non-farm Payrolls Change May exp 655k prev 266k (10:30pm)

US Unemployment Rate May exp 5.9% prev 6.1% (10:30pm)

US Average Hourly Earnings May exp 0.2% prev 0.7% (10:30pm)

US Factory Orders Apr exp -0.3% prev 1.1% (12:00am)

US Durable Goods Orders Apr final exp -1.3% prev -1.3% (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.

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