bankSA

Morning Report

Thursday, 5 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,503	0.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,793	-0.9%	10 yr bond	98.87		0.01		90 day BBSW	0.02	0.00
Japan Nikkei	27,584	-0.2%	3 yr bond	99.71		0.00		2 year bond	0.04	0.00
China Shanghai	3,644	0.8%	3 mth bill rate	99.98		0.00		3 year bond	0.26	0.00
German DAX	15,692	0.9%	SPI 200	7,397.0		-14		3 year swap	0.38	0.01
UK FTSE100	7,124	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.15	-0.01
Commodities (close & change)*			TWI	61.8	-	-	61.7	**United States**		
CRB Index	213.5	-1.8	AUD/USD	0.7394	0.7427	0.7370	0.7379	3-month T Bill	0.05	0.00
Gold	1,811.74	1.3	AUD/JPY	80.63	81.04	80.52	80.80	2 year bond	0.18	0.01
Copper	9,520.00	-160.2	AUD/GBP	0.5314	0.5329	0.5302	0.5313	10 year bond	1.18	0.01
Oil (WTI)	67.98	-2.6	AUD/NZD	1.0534	1.0537	1.0467	1.0477	**Other (10 year yields)**		
Coal (thermal)	154.40	1.7	AUD/EUR	0.6233	0.6263	0.6227	0.6234	Germany	-0.50	-0.02
Coal (coking)	213.58	1.0	AUD/CNH	4.7818	4.7934	4.7637	4.7696	Japan	0.01	-0.01
Iron Ore	173.00	-5.9	USD Index	92.1	92.3	91.8	92.3	UK	0.51	-0.01

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: Hawkish comments from Federal Reserve Vice Chair Richard Clarida and growth concerns following mixed economic data drove market sentiment overnight. US equities were mostly weaker. The US dollar rose and US bond yields also increased slightly.

Share Markets: US stocks mostly fell after comments from Federal Reserve Vice Chair Clarida suggested that the Fed was on track to announcing a taper of its bond buying program by the end of 2021 and to being increasing interest rates in 2023. Mixed economic data, with a weak ADP employment report despite the ISM services index hitting a new high, also raised growth concerns.

The S&P 500 fell 0.5% while the NADAQ bucked the trend and rose 0.1%.

Elsewhere, the Euro Stoxx 50 hit a new high, rising by 0.7%. The ASX 200 also hit a new high, rising by 0.4%.

Interest Rates: US interest rates initially fell on the weaker jobs data, before increasing following the hawkish comments from Vice Chair Clarida. The US 10-year yield rose 1 basis point to 1.18%. The US 2-year yield also rose 1 basis point to 0.18%.

The Australia 10-year (futures) yield fell from 1.15% to 1.14% while the Australian 2-year (futures) yield was unchanged at 0.30%.

Foreign Exchange: The US dollar was volatile following the mixed economic data and comments from the Fed Vice Chair. The USD Index fell to a low of 91.8 before increasing to a high of 92.3, where it is currently sitting. The US dollar rose against most major currencies.

The AUD/USD pair rose to a high of 0.7427, before pairing gains and falling to a low of 0.7370. It has since recovered to 0.7379.

Commodities: Oil prices fell following higher-than-expected increases in US stockpiles of crude oil. Copper and iron ore both fell, while gold rose.

COVID-19: NSW recorded 233 new COVID-19 cases yesterday, 92 of which were confirmed to be in isolation throughout their entire infectious period. Queensland recorded 17 new cases yesterday and South Australia recorded 1 new case.

Australia: Retail sales fell by 1.8% in June, in line with the preliminary estimate and consensus expectations. This followed lockdowns in Victoria and New South Wales for part of the month and shorter lockdowns across other parts of Australia, including Queensland, Western Australia and the Northern Territory.

Food retailing rose by a solid 1.5% in June after two months of good gains. All other major categories of retailing fell in June. Ex food, retailing would have dropped a sharper 4.1% in June.

Online spending spiked 11.6% in June, which is the biggest jump since April 2020 and follows large falls in April and May. As a share of all retailing, online

spending has returned to the double digits – at 10.1% in June. Online spending is likely to remain strong in the coming months given the lockdowns across New South Wales and other states over July and August.

In volume terms, retail spending grew by 0.8% in the June quarter, more than fully recovering the fall in the March quarter. This is positive for consumption and subsequently, GDP growth in Q2. However, some categories which are more impacted by COVID-19-related restrictions aren't captured in retail sales, including recreational services and travel-related spending.

In year-on-year terms, retail sales volumes grew by 9.2% - the fastest pace in over 17 years. But volumes were depressed last year in the June quarter, boosting the annual pace for this quarter.

In volume terms, cafes, restaurants and takeaway food services is now above its pre-pandemic level for the first time since the pandemic began. As this sector has recovered, food retail volumes have reduced, as people transition back to eating out more often and less at home. This is likely to reverse somewhat over the next few months due to lockdowns.

China: China's services sector expanded at a much faster pace in July, boosted by the accelerating recovery in business activity and new orders. The Caixin services purchasing managers' index (PMI) rose to 54.9 in July, from 50.3 in June.

The Caixin composite output index also rose to 53.1 in July, from 50.6 in June.

Europe: The final July Markit Services PMI was 59.8, weaker than the preliminary estimate of 60.4. This took the July composite PMI to 60.2, slightly below the preliminary estimate of 60.6. While softer than the preliminary result, this still reflects the strongest growth in Eurozone business activity in more than 15 years.

Retail sales increased by 1.5% in June, to a record high. This follows a revised 4.1% increase in May and was below consensus expectations of 1.7%. The increase reflected easing of restrictions across Europe and a continued return to more normal spending patterns. Increases in fuel and non-food products drove the rise. While food, drinks and tobacco fell.

New Zealand: The unemployment rate fell to 4.0% in the June quarter, down from a revised 4.6% in the March quarter. It is the lowest unemployment rate since the December quarter of 2019 when it was also 4.0%. Employment rose 1.0% throughout the June quarter and the participation rate lifted by 0.1 percentage point to 70.5%.

Private sector wages rose by 0.9% in the June quarter – the strongest quarterly pace in almost 13 years. On a year ago, private sector wages were 2.2% higher.

This latest batch of data on the labour market adds to the case for a rate hike from the Reserve Bank of New Zealand on August 18. Financial markets are now fully priced for a rate hike of 25 basis points at this review.

United Kingdom: The final July Markit Services PMI was 59.6, higher than the preliminary estimate of 57.8. The final July composite PMI came in at 59.2, above the preliminary estimate of 57.7.

Despite being stronger than the preliminary estimate, this is the weakest reading for the services sector since March. Businesses are being impacted by increasing costs, which rose at the fastest pace in 25 years.

United States: ADP Employment numbers indicated that private companies added 330k jobs in July, down from a revised 680k in June. This was well below consensus expectations of 690k and was the lowest since February. The result indicates that despite the overall growth across the economy, employers are continuing to find it difficult to hire suitable labour. Results were weakest in the leisure and hospitality industry, which had been hard hit by the pandemic.

The ISM Services index increased to a record high of 64.1 in July, up from 60.1 in June. This was above consensus expectations of 60.5. The final Markit Services PMI index also increased to 59.9 in July, slightly higher than the preliminary estimate of 59.8. Activity in the services sector was supported by consumers continuing to transition away from goods spending and back towards services. However, supply constraints continue to affect businesses, with increased input costs and difficulty finding suitable labour.

Federal Reserve Vice Chair Richard Clarida spoke to the Peterson Institute for International Economics in a virtual appearance. His comments suggested that the Fed was on track to announcing a taper of its bond buying program by the end of 2021 and to being increasing interest rates in 2023. He stated that the "necessary conditions for raising the target range for the federal funds rate will have been met by year-end 2022" and that "Given this outlook and so long as inflation expectations remain well anchored at the 2% longer-run goal … commencing

policy normalization in 2023 would, under these conditions, be entirely consistent with our new flexible average inflation targeting framework". On inflation, he supported the view that the current increase was transitory. However, he noted that the risks to inflation are to the upside.

Today's key data and events:

AU Trade Bal. Jun exp $10.8.bn prev $9.7bn (11:30am)

AU Weekly Payroll Jobs w/e 17 Jul (11:30am)

EZ Ger. Factory Orders Jun exp 2.0% prev -3.7% (4pm)

UK Bank of England Policy Setting (9pm)

Bank Rate exp 0.10% prev 0.10%

US Trade Bal. Jun exp -$74.1bn prev -$71.2bn (10:30pm)

US Initial Jobless Claims Jul 31 exp 383K prev 400k (10:30pm)

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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