

## Morning Report

Wednesday, 7 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,262	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	34,577	-0.6%	10 yr bond	98.62		0.09		90 day BBSW	0.02	0.00
Japan Nikkei	28,643	0.2%	3 yr bond	99.55		0.03		2 year bond	0.11	0.02
China Shanghai	3,700	-0.1%	3 mth bill rate	99.96		0.00		3 year bond	0.45	0.08
German DAX	15,511	-1.0%	SPI 200	7,162.0		-11		3 year swap	0.48	0.02
UK FTSE100	7,101	-0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.47	0.04
Commodities (close & change)*			TWI	62.8	-	-	63.2	United States		
CRB Index	210.2	-4.7	AUD/USD	0.7531	0.7599	0.7481	0.7493	3-month T Bill	0.04	0.00
Gold	1,797.08	5.3	AUD/JPY	83.57	84.20	82.75	82.90	2 year bond	0.22	-0.02
Copper	9,290.04	-200.1	AUD/GBP	0.5440	0.5478	0.5426	0.5431	10 year bond	1.35	-0.08
Oil (WTI)	73.37	-1.8	AUD/NZD	1.0720	1.0725	1.0664	1.0689	Other (10 year yields)		
Coal (thermal)	118.05	-5.9	AUD/EUR	0.6348	0.6404	0.6334	0.6339	Germany	-0.27	-0.06
Coal (coking)	200.00	2.0	AUD/CNH	4.8679	4.9083	4.8512	4.8560	Japan	0.04	0.01
Iron Ore	207.85	-1.1	USD Index	92.3	92.7	92.0	92.5	UK	0.63	-0.08

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 adopted a risk-averse tone after US markets returned from a national holiday on Monday. US share markets fell from record highs and the US 10-year bond yield fell to its lowest since February.

But the world game would have grabbed a lot of attention. The semi final between Spain and Italy was another cliff hanger of a match with a penalty shootout deciding the winner. Italy is through.

**Share Markets:** Major US share markets fell from record highs, as profit-taking ensured. The S&P 500 fell 9 points (or -0.2%), snapping a 7-day winning streak. The Dow dropped 209 points (or -0.6%).

**Interest Rates:** US bond yields fell across the curve. The US 2-year yield fell 2 basis points and the 10-year dropped 8 basis points.

The Australian 3-year government bond yield (futures) reversed its RBA-related gain, falling from 0.51% to 0.45%, while the 10-year yield fell from 1.50% to 1.38% - the lowest since February.

**Foreign Exchange:** The US dollar strengthened against most major currencies overnight. The exception was the Japanese yen.

The Australian dollar lifted fell in the immediate wake of the RBA policy decisions yesterday – from around 0.7563 to 0.7544, but quickly recovered to rise to a high of 0.7600 in European trading. However, the AUD/USD fell off this perch in New

York trading to fall by more than 1 US cent to reach an overnight low of 0.7480.

**Commodities:** Most commodity prices softened overnight.

**COVID-19:** NSW recorded 18 new COVID-19 cases yesterday. The Premier has advised that she will provide an update regarding the lockdown at today's press conference. News reports are suggesting the lockdown will be extended by a week.

Queensland recorded one new COVID case.

**Australia:** The Reserve Bank (RBA) left the cash rate unchanged yesterday at 0.10%, as expected. The RBA also made decisions on two other key policies, which support low borrowing rates in the economy and keep the Australian dollar lower than otherwise would be the case.

The RBA announced it will reduce the rate of bond purchases under its quantitative easing program to \$4 billion a week, from \$5 billion per week, when the current round of purchases ends in early September. The strength of the economic recovery is behind the decision to taper the rate of bond purchases. However, the program will still be extended beyond the current tranche since inflation remains short of the RBA's target and unemployment is not yet at full employment.

The RBA will review this program again at its

November meeting.

As widely expected, the RBA decided to leave the yield curve target pegged to the April 2024 bond, instead of rolling to the next maturity of November 2024.

The RBA also made subtle tweaks to its forward guidance that strengthens the case for a rate hike before 2024. Previously, the RBA said it was “unlikely” conditions for a rate hike would be met before 2024 “at the earliest”. Yesterday, it said the “central scenario” is that these conditions will not be met until 2024. The references to “unlikely” and “earliest” were dropped, weakening the strength of its commitment.

This shift reinforces our expectation that the first cash rate hike will come in early 2023.

The communication around housing was mostly unchanged, but the Governor noted specific macroprudential tools which could be utilised. These include lifting interest serviceability buffers and applying portfolio-wide loan-to-value ratio and debt-to-income restrictions.

In terms of data published, weekly payroll jobs rose by 0.3% in the fortnight to 19 June, following a 0.8% fall in the previous fortnight. In the first half of June, payrolls rose across all states and territories from 0.1% in New South Wales to 0.6% in the Australian Capital Territory. As Victoria emerged out of lockdown and restrictions began to ease, the state saw a 0.4% increase in payroll jobs, following a 2.1% fall in the previous fortnight.

The Roy Morgan consumer confidence index fell 4.4 points to 107.8 in the week ending 4-July, following 112.2 in the previous week. The decrease can be attributed to several states and territories entering lockdowns or reintroducing restrictions.

**Europe:** The German ZEW expectations index fell very sharply in July to 63.3, from 79.8 in June. The size of the decline was worse than markets were anticipating.

**United States:** The ISM services index fell to 60.1 in June, from a record high of 64.0 in May. The outcome was below consensus expectations. The rate of expansion remains strong, but supply and demand imbalances are intensifying just as manufacturing pressures begin to turn the corner.

#### Today's key data and events:

EZ Ger. Industrial Prod. May exp 0.5% prev -1.0% (4pm)  
 EZ European Commission Publishes Forecasts (7pm)  
 US JOLTS Openings May exp 9313k prev 9286k (12am)  
 US FOMC Minutes for Jun 16 Meeting (4am)

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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