

Morning Report

Thursday, 8 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,327	0.9%	Last		Overnight Chg			Australia		
US Dow Jones	34,682	0.3%	10 yr bond	98.62	0.02			90 day BBSW	0.03	0.00
Japan Nikkei	28,367	-1.0%	3 yr bond	99.58	0.02			2 year bond	0.11	0.00
China Shanghai	3,725	0.7%	3 mth bill rate	99.96	0.00			3 year bond	0.39	-0.06
German DAX	15,693	1.2%	SPI 200	7,309.0	72			3 year swap	0.46	-0.02
UK FTSE100	7,151	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.39	-0.08
Commodities (close & change)*			TWI	63.2	-	-	62.7	United States		
CRB Index	209.2	-1.0	AUD/USD	0.7493	0.7534	0.7463	0.7487	3-month T Bill	0.05	0.00
Gold	1,803.63	6.6	AUD/IPY	82.90	83.35	82.65	82.83	2 year bond	0.21	0.00
Copper	9,290.04	-200.1	AUD/GBP	0.5431	0.5447	0.5420	0.5424	10 year bond	1.32	-0.03
Oil (WTI)	72.20	-1.2	AUD/NZD	1.0689	1.0693	1.0661	1.0663	Other (10 year yields)		
Coal (thermal)	130.25	-1.5	AUD/EUR	0.6339	0.6368	0.6330	0.6349	Germany	-0.30	-0.03
Coal (coking)	201.00	1.0	AUD/CNH	4.8560	4.8723	4.8362	4.8475	Japan	0.03	-0.01
Iron Ore	208.50	-1.2	USD Index	92.5	92.8	92.4	92.7	UK	0.60	-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: Sentiment in global equity and bond markets was supported by benign minutes from the US Federal Reserve. US share markets rose to hit fresh record highs and US bond yields fell.

Share Markets: US stock markets rose to hit a fresh record high. The S&P 500 rose 0.3% while the tech-heavy NASDAQ was flat. European markets also rose. The Euro Stoxx 50 was up 0.6% and the German DAX rallied by 1.2%. The ASX 200 rose by 0.9%.

Interest Rates: The reflation trade continues to fade with US bond yields continuing to decline. US 10-year yields fell to their lowest levels since February, briefly dropping below 1.30%, before settling at 1.32%. The US 2-year yield was broadly unchanged and closed at 0.21%.

Australian 3-year government bond yield (futures) fell further, from 0.45% to 0.43%. The 10-year yield also fell from 1.40% to 1.38%, its lowest level since February.

Foreign Exchange: The US dollar strengthened slightly against most other currencies.

The AUD/USD pair ranged between 0.7463 and 0.7534 before settling at broadly unchanged from the previous day.

Commodities: Oil prices declined for a second day after reaching six-year highs. Iron ore and copper also slipped.

COVID-19: NSW recorded 27 new COVID-19 cases yesterday. Premier Gladys Berejiklian confirmed the two-week lockdown across Greater Sydney, the Central Coast, Blue Mountains and Wollongong will be extended to July 16.

Queensland recorded one new COVID-19 case.

Restrictions in Victoria will ease from midnight July 8 as the recent Melbourne outbreak comes under control.

Australia: Later today, Reserve Bank Governor Lowe is giving a speech on "The Labour Market and Monetary Policy". RBA watchers will be eyeing the speech closely following board meeting on Tuesday, where the central bank decided to start to taper bond purchases from September this year.

There were no major economic data released yesterday.

Europe: European Central Bank (ECB) officials have reportedly agreed to increase their inflation goal to 2% and allow room for overshooting. This marks a significant change from the current target of "below, but close to, 2% over the medium term". The decision reportedly emerged from the ECB's strategy review this week, its first in almost 20 years. The results of the review will be formally presented later today.

The European Commission revised up its forecasts for the euro area economy. GDP growth was pinned

at 4.8% in 2021 and 4.5% in 2022. In May, the commission projected 4.3% GDP growth in 2021 and 4.4% in 2022. The European Commission also raised its inflation forecast for 2021 to 1.9% from 1.7%. Increases in energy and commodity prices and supply chain disruptions are contributing to price pressures.

German industrial production declined 0.3% in May against consensus expectations of a 0.5% increase. Bottlenecks in the supply of materials squeezed output.

United States: The minutes from the June meeting of the Federal Open Market Committee (FOMC) revealed early discussions about QE tapering. While "various participants mentioned" tapering conditions would be met "somewhat earlier" than anticipated, "several" emphasized a "patient" approach. The committee's standard of "substantial further progress" was generally seen as not having yet been met. Following the June meeting, officials pencilled in two rate-hikes in 2023, according to the median of their projections.

The FOMC also discussed the uptick in inflation, while the committee "generally expected inflation to ease" once transitory factors linked to the economy's reopening had subsided, "a substantial majority of participants judged that the risks to their inflation projections were tilted to the upside." Members also flagged there is considerable uncertainty about how soon labour shortages and supply bottlenecks, which are contributing to inflation, would resolve.

US job openings rose to 9.21 million in May, a new record high. However, they fell short of consensus forecasts. April figures were revised to 9.19 million. The rise underscores persistent hiring difficulties with skill mismatches underpinned by pandemic-related disruptions. Despite the record job openings, there are still over 1 million unemployed job seekers.

Today's key data and events:

JN Current Account May exp ¥1.8tr prev ¥1.3tr (9:50am)

AU RBA Governor Lowe Speech "The Labour Market and Monetary Policy" (12:30pm)

US Initial Jobless Claims w/e Jul 3 exp 350k prev 364k (10:30pm)

US Continuing Claims exp 3350k prev 3469k (11:45pm)

US Cons. Credit May exp \$18.0bn prev US\$18.6bn (5am)

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

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