

Morning Report

Wednesday, 8 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,530	0.0%			Last	Overnight Chg		Australia		
US Dow Jones	35,100	-0.8%	10 yr bond	98.72			-0.05	90 day BBSW	0.01	0.00
Japan Nikkei	29,916	0.9%	3 yr bond	99.70			0.00	2 year bond	0.01	0.00
China Shanghai	3,853	1.5%	3 mth bill rate	99.98			-0.01	3 year bond	0.29	0.00
German DAX	15,843	-0.6%	SPI 200	7,503.0			-29	3 year swap	0.45	0.00
UK FTSE100	7,149	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.26	0.00
Commodities (close & change)*			TWI	61.9	-	-	61.8	United States		
CRB Index	217.9	-2.2	AUD/USD	0.7439	0.7468	0.7375	0.7389	3-month T Bill	0.03	-0.01
Gold	1,794.36	-28.9	AUD/JPY	81.70	81.99	81.29	81.48	2 year bond	0.22	0.01
Copper	9,333.65	-110.1	AUD/GBP	0.5377	0.5391	0.5355	0.5360	10 year bond	1.37	0.05
Oil (WTI)	68.35	-0.9	AUD/NZD	1.0424	1.0454	1.0382	1.0409	Other (10 year yields)		
Coal (thermal)	175.00	-3.3	AUD/EUR	0.6266	0.6286	0.6229	0.6239	Germany	-0.32	0.05
Coal (coking)	292.33	2.3	AUD/CNH	4.7983	4.8144	4.7658	4.7748	Japan	0.04	-0.01
Iron Ore	135.80	-0.8	USD Index	92.2	92.6	92.1	92.5	UK	0.74	0.04

Data as at 7:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US stocks slipped amid renewed concerns that the economic recovery is faltering. US bond yields rose and the US dollar firmed.

Share Markets: The Dow fell 0.8% while the S&P 500 slipped 0.3%. The ASX 200 finished unchanged.

Interest Rates: US 10-year treasury yields rose 5 basis points to 1.37% amid a jump in supply while 2-year yields hovered around 0.22%. Australian 10-year (futures) yields rose 4 basis points to 1.29% while 3-year futures yields were largely unchanged at 0.31%.

Foreign Exchange: The Australian dollar fell from 0.7439 to 0.7389, despite the RBA pressing ahead with tapering quantitative easing. The US dollar firmed.

El Salvador has become the first country to adopt bitcoin as legal tender. Analysts will pay close attention to whether a significant number of people want to transact with Bitcoin when it circulates alongside the US dollar. Bitcoin plunged as much as 17%, to its lowest level in a month, alongside news that the government disconnected its Bitcoin wallet early in the day to fix tech glitches. The issue appeared to be overcome later in the day.

Commodities: Oil, gold and copper all moved lower.

COVID-19: NSW recorded 1,220 new cases yesterday. Victoria recorded 246 cases and the ACT

recorded 19 new cases.

Australia: The Reserve Bank (RBA) has again shrugged off pressure to defer the tapering of its quantitative easing plan. However, in a nod to the hit to the economy from the Delta outbreak, the central bank has said it will hold the purchase rate steady at \$4 billion a week until February next year. Other policy settings were left unchanged.

The RBA announced that bond purchases would be pared back from \$5 billion per week to \$4 billion per week at its July meeting, and stuck with those plans at the August meeting. Ahead of this meeting, there was widespread speculation over whether the RBA would reverse its decision to taper from September, or in other words, continue purchasing bonds at \$5 billion per week.

Yesterday's statement also dropped the reference to the Board's "flexible approach to the rate of bond purchases". The RBA appears to be setting the bar higher for tinkering with bond purchases.

The RBA is relatively upbeat on the outlook, noting Delta will "delay, but not derail, the recovery". In the RBA's central scenario, the economy is growing again in the December quarter and will be "back around its pre-Delta path in the second half of next year".

However, as we have forecast, the RBA notes the recovery is likely to be slower than in the past.

On the cash rate, the RBA stuck to its long-held line that its “central scenario” is that conditions to lift the cash rate will not be met before 2024.

At this stage, we still expect the RBA will need to lift the cash rate in 2023, consistent with a strong rebound in 2022. However, there are larger-than-usual risks around the medium term outlook and further setbacks on the health front could push out the first rate hike.

Separately, the Roy Morgan weekly consumer confidence index fell 1.8% to a neutral result of 100.0 in the week ending 5 September. Confidence fell in both NSW and Victoria this week and is now well below 100 in both states. However, confidence is still higher than this time a year ago.

China: China’s trade surplus rose to \$58.3 billion in August, up from \$56.7 in July. Exports surged 25.6% over the year to a record \$294.4 billion. Imports grew 33.1% over the same period, also hitting a record high. The pick up comes despite disruptions at China’s ports alongside fresh virus outbreaks which have caused congestion and pushed up shipping costs. Global demand remained resilient, likely reflecting retailers bringing forward their Christmas shopping orders.

Europe: Eurozone GDP for the June quarter was finalised at 2.2%, up from an initial reading of 2.0%. Employment growth in the quarter was finalised at 0.7%, up from the preliminary reading of 0.5%.

The ZEW investor survey showed Eurozone expectations fell to 31.1 from 42.7 in September, with ZEW citing supply disruptions and Covid cases as weighing on confidence.

United States: There was no major economic data released overnight.

Today’s key data and events:

JN Current Acct. Jul exp ¥2.3tr prev ¥0.9tr (9:50am)

JN GDP Q2 Final exp 0.4% prev 0.3% (9:50am)

AU RBA Deputy Governor Speech to TradeTech (6:10pm)

US Federal Reserve's Beige Book (4am)

US Cons. Credit Jul exp \$25.0bn prev \$37.7bn (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 and for other countries they are consensus forecasts.

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