

Morning Report

Monday, 9 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,538	0.4%	Last		Overnight Chg			Australia		
US Dow Jones	35,209	0.4%	10 yr bond	98.78				90 day BBSW	0.01	-0.01
Japan Nikkei	27,820	0.3%	3 yr bond	99.66				2 year bond	0.05	0.00
China Shanghai	3,624	-0.2%	3 mth bill rate	99.98				3 year bond	0.30	0.03
German DAX	15,761	0.1%	SPI 200	7,475.0			30	3 year swap	0.45	0.04
UK FTSE100	7,123	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.19	0.03
Commodities (close & change)*			TWI	61.7	-	-	61.7	United States		
CRB Index	214.5	-0.7	AUD/USD	0.7404	0.7406	0.7336	0.7352	3-month T Bill	0.04	-0.01
Gold	1,763.03	-41.4	AUD/JPY	81.27	81.40	81.02	81.07	2 year bond	0.21	0.01
Copper	9,444.00	-25.8	AUD/GBP	0.5315	0.5317	0.5295	0.5296	10 year bond	1.30	0.07
Oil (WTI)	68.28	-0.8	AUD/NZD	1.0492	1.0505	1.0473	1.0490	Other (10 year yields)		
Coal (thermal)	134.30	1.9	AUD/EUR	0.6256	0.6268	0.6243	0.6249	Germany	-0.46	0.04
Coal (coking)	218.75	3.8	AUD/CNH	4.7846	4.7876	4.7424	4.7643	Japan	0.02	0.01
Iron Ore	164.95	-2.9	USD Index	92.3	92.8	92.3	92.8	UK	0.61	0.09

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 labour market data led to positive market sentiment and drove the S&P 500 to a record high. US bond yields fell as a result.

Share Markets: The S&P 500 increased to record highs following the release of better-than-expected US jobs market data. This led to increased expectations that the Federal Reserve is moving closer to tapering its monetary policy support.

The S&P 500 rose 0.2% while the tech-heavy NASDAQ fell by 0.4%.

The ASX rose by 0.4% to a fresh record high and futures are pointing to a positive open.

Interest Rates: US bond yields rose as the strong jobs data led to greater chances of the Fed tapering its monetary policy support sooner-than-expected. The US 2-year yield rose 1 basis point to 0.21%, while the US 10-year yield rose 7 basis points to 1.30%.

The Australian 3-year government bond yield (futures) rose 2 basis points to 0.34% and the 10-year yield (futures) rose from 1.19% to 1.22%.

Foreign Exchange: The US dollar rose against the major currencies following the strong jobs data. The USD Index rose from a low of 92.3 to a high of 92.8, where it closed.

The AUD/USD pair fell from a high of 0.7406 to a low of 0.7347. It fell further on opening today to 0.7336 before recovering to 0.7352 at the time of writing.

Commodities: Gold fell to be below \$1,800. Copper and oil were also down, while iron ore fell to a four-month low of \$165.0.

COVID-19: NSW recorded 262 new cases yesterday, 86 of which were confirmed to be in isolation throughout their entire infectious period. Queensland recorded 9 new cases yesterday and Victoria recorded 11 new cases. The lockdown across South East Queensland ended. Trailing restrictions will continue to apply for two weeks.

Australia: On Friday the Reserve Bank (RBA) released updated forecasts, the first since the extended lockdown hit New South Wales. The Governor also appeared before Parliament for the central bank's semi-annual testimony.

The RBA remains upbeat on the outlook, despite setbacks from the recent virus outbreaks.

Beyond the short-term disruption, the RBA expects the overall level of economic activity to be higher and the unemployment rate to be lower than in the last set of forecasts from May 2021. This reflects strong momentum leading into the recent outbreaks.

A contraction in economic activity of at least 1 per cent is expected in the September quarter. The RBA expects activity to recover strongly in the December quarter. GDP growth in 2021 is expected to reach 4 per cent, then 4½ per cent in 2022 and 2½ per cent in 2023.

The unemployment rate is forecast to reach 5 per cent by the end of the year, and touch 4¼ per cent in December 2022, around the RBA's estimate of full employment. It is then expected to fall to 4 per cent in December 2023.

The RBA continued to emphasise that wage and price growth remains subdued. Wages growth is expected to reach 2¼ per cent by the end of 2023 and inflation is forecast to hit 2¼ per cent by December 2023, notably inside the 2–3 per cent target band.

Despite the material deterioration in the near-term outlook, the RBA is sticking to its guns, going ahead with the tapering of bond purchases from September announced in July. The central bank also continued to emphasise they don't expect to lift the cash rate until 2024.

Once restrictions ease, we are optimistic about the economic rebound, consistent with the RBA's views. But there are growing downside risks from recent lockdowns in other states and the ongoing rising trend in daily NSW infections. The situation is still evolving, and near-term uncertainty remains heightened.

We expect a faster fall in the unemployment rate and subsequently a stronger increase in inflation. On this basis, we still expect the first rate hike to come in the first half of 2023.

China: The current account surplus was \$52.8b in Q2, up from \$69.4b in Q1. The trade surplus rose to \$56.6b in July, up from \$51.5b in June. This was above consensus expectations of \$53.3b. Exports rose by 19.3% over the year to July, down from growth over the year to June of 32.2% and below consensus expectations of 20.0%. Imports also came in below expectations, growing by 28.1% over the year to July versus the market's expectations of 33.3%. This was down on growth over the year to June of 36.7%. The slower-than-expected growth suggests a slowdown in the industrial sector as the country deals outbreaks of the Delta strain of COVID-19 across several cities.

United States: The US labour market strengthened in July with the largest growth in jobs in almost 12 months. Non-farm payrolls increased by 943k, above the consensus expectations of 870k. The previous month was also revised upward from 850k to 938k. This was the largest increase since August 2020, when over 1 million jobs were added.

The unemployment rate fell to 5.4% in July, lower than consensus expectations of 5.7% and down

from the previous month of 5.9%. This is the lowest level of unemployment since the pandemic began.

Average hourly earnings increased by 0.4% in June, above consensus expectations of 0.3%. The previous month was also revised upward from 0.3% to 0.4%. This takes the annual rate over the year to June to 4.0%, above consensus expectations of 3.9%. The participation rate also increased from 61.6% to 61.7%.

The release was very strong and indicates significant positive momentum in the jobs market. The release was viewed as moving one step closer towards the goal of the Fed of 'substantial' further progress in the jobs market and has implications for how quickly the Fed may begin to pare back monetary policy support.

Consumer credit increased by \$37.7b in June, the highest increase on record. This was up from a revised \$36.7 in May. This was well above consensus expectations of \$23.0b. The increase was driven by continued spending by consumers following the broader reopening of the economy, particularly in those areas that were most affected by restrictions, including eating out and travel. Vehicle sales also remained elevated.

Today's key data and events:

CH CPI Jul y/y exp 0.8% prev 1.1% (11:30am)
 CH PPI Jul y/y exp 8.6% prev 8.8% (11:30am)
 EZ Sentix Investor Confidence Aug prev 29.8 (6:30pm)

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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