

Morning Report

Wednesday, 10 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	6,771	0.5%			Last	Overnight Chg		Australia			
US Dow Jones	31,833	0.1%	10 yr bond		98.26	0.04		90 day BBSW	0.04	0.00	
Japan Nikkei	29,028	1.0%	3 yr bond		99.74	0.01		2 year bond	0.11	-0.02	
China Shanghai	3,521	-1.8%	3 mth bill rate		99.96	-0.01		3 year bond	0.11	-0.02	
German DAX	14,438	0.4%	SPI 200		6,794.0	18		3 year swap	0.36	-0.01	
UK FTSE100	6,730	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.78	0.01	
Commodities (close & change)*			TWI		64.1	-	-	64.0	United States		
CRB Index	191.3	-0.9	AUD/USD		0.7643	0.7726	0.7621	0.7716	3-month T Bill	0.03	-0.01
Gold	1,716.73	33.2	AUD/JPY		83.24	83.92	83.18	83.73	2 year bond	0.16	0.00
Copper	8,797.50	-220.5	AUD/GBP		0.5531	0.5559	0.5521	0.5556	10 year bond	1.54	-0.06
Oil (WTI)	63.80	-1.2	AUD/NZD		1.0736	1.0771	1.0710	1.0758	Other (10 year yields)		
Coal (thermal)	82.55	2.1	AUD/EUR		0.6452	0.6490	0.6439	0.6484	Germany	-0.30	-0.02
Coal (coking)	122.65	-3.4	AUD/CNH		5.0083	5.0332	4.9976	5.0284	Japan	0.13	0.00
Iron Ore	157.54	-9.8	USD Index		92.4	92.5	91.9	92.0	UK	0.73	-0.03

Data as at 8am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Improved risk sentiment pushed up markets overnight. There was renewed focus on the strength of the US recovery, the upcoming US fiscal package and an apparent easing of concerns over rising inflationary pressures.

Share Markets: US stocks markets gained overnight, as dip buyers pushed tech stocks higher. This propelled the Nasdaq up 3.7%. Yesterday's rotation from away from high-valuation stocks to shares linked to the economic cycle reversed sharply, at least for the day. The Dow was up 0.1%.

In Europe, the Dax was up 0.4%.

The bearish mood in China continued. The Shanghai Composite declined 1.8%, despite the intervention of state-backed funds. The funds, known as China's 'national team', step into markets from time to time to reduce volatility. The benchmark CSI 300 has plummeted 14% in the last 14 trading days.

The ASX 200 rose 0.5%. Futures point to a solid open.

Interest Rates: Australian 3-year bond yields declined 2 basis points to 0.11% while the 10-year bond crept up 1 basis point to 1.78%. Today, bond markets will be closely watching RBA Governor Lowe's address on 'The Recovery, Investment and Monetary Policy'.

The US 10-year bond yield declined 6 basis points to 1.54% but remains near its highest level in a year.

Foreign Exchange: The AUD/USD pair bounced off a one-month low of 0.7621 to finish up on the day at 0.7716. The US dollar was weaker.

Commodities: The oil price fell below \$65 a barrel, extending its retreat from multi-year highs. The iron ore price declined after China imposed new production restrictions on steelmakers to combat pollution.

Australia: February survey data on business confidence and conditions showed that businesses are upbeat. The business confidence index increased to 16, from 12 in January, reaching its highest level since early 2010. This is well above the long-run average.

Business conditions also improved in the month, rising to 15, returning to close to its December level (16) which was the highest reading since 2018.

Capacity utilisation increased further in February, reaching 81.8%, its highest level since 2019. Higher capacity utilisation is associated with increases in capital expenditure and employment. This is an encouraging sign for business investment, which picked up in the December quarter, but remains subdued relative to pre-COVID levels. A further pick up in business investment will be necessary for a sustainable recovery.

Looking forward, we expect business conditions will be supported over the coming period by low

interest rates, tax incentives, the vaccine rollout and the subsequent relaxation of social distancing rules.

The Manpower business survey, which examines the employment outlook, increased 16% for the June quarter of 2020, up from 12% in the previous quarter. A positive figure indicates employers intend to increase hiring.

New Zealand: Business confidence dipped in February, to 0.0 from 7.0. Businesses expectations for activity in their own firm also declined. This follows a tightening in COVID-related restrictions over recent weeks. Despite the recent drop, gauges of business activity generally remain around average levels.

Manufacturing sales declined 0.6% in the December quarter, following a 10.0% jump in the September quarter.

Europe: Eurozone final December quarter GDP contracted 0.7% (initial read of -0.6%) alongside lockdowns in major economies in the currency union. In annual terms, GDP was down 4.9%.

United States: The NFIB small business optimism index increased from 95.0 to 95.8 in February, although was slightly weaker than expected. Severe weather hampered economic activity in February.

The \$1.9t relief plan is poised to pass the House of Representatives on Wednesday morning (US time). It will then go to President Biden for his signature. Stimulus cheques worth \$1400 will start to go out in a matter of weeks.

World: The OECD upgraded its global growth forecasts to 5.6% for 2020 and 4.0% for 2022, up from 4.2% and 3.7% respectively in its December forecasts. In its interim economic outlook, the OECD pointed to accelerated vaccine rollouts and the new US fiscal package as the drivers of the revisions.

The OECD ramped up its expectations for US GDP growth in 2021 to 6.5% from 3.2%. The OECD estimates the relief package will boost US output by 3% to 4% on average in its first full year.

Today's key data and events:

AU RBA's Lowe Gives Speech in Sydney (9:00am)

AU Westpac MI Consumer Confidence Mar prev 109.1 (10:30am)

CH CPI Feb y/y prev -0.3% exp -0.3% (12:30pm)

CH PPI Feb y/y prev 0.3% exp 1.5% (12:30pm)

US CPI Feb m/m prev 0.3% exp 0.4% (12:30am)

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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