

Morning Report

Wednesday, 11 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,563	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	35,265	0.5%	10 yr bond	98.79			-0.02	90 day BBSW	0.01	0.00
Japan Nikkei	27,888	0.2%	3 yr bond	99.67			0.00	2 year bond	0.05	0.01
China Shanghai	3,700	1.0%	3 mth bill rate	99.99			0.00	3 year bond	0.31	0.00
German DAX	15,771	0.2%	SPI 200	7,482.0			19	3 year swap	0.45	0.00
UK FTSE100	7,161	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.20	-0.01
Commodities (close & change)*			TWI	61.6	-	-	61.4	United States		
CRB Index	215.2	3.5	AUD/USD	0.7330	0.7356	0.7316	0.7348	3-month T Bill	0.04	0.00
Gold	1,728.93	-1.0	AUD/JPY	80.88	81.32	80.71	81.24	2 year bond	0.24	0.02
Copper	9,495.75	153.5	AUD/GBP	0.5293	0.5313	0.5287	0.5310	10 year bond	1.35	0.03
Oil (WTI)	68.29	1.8	AUD/NZD	1.0488	1.0512	1.0481	1.0485	Other (10 year yields)		
Coal (thermal)	167.10	0.0	AUD/EUR	0.6245	0.6277	0.6235	0.6269	Germany	-0.46	0.00
Coal (coking)	218.50	0.0	AUD/CNH	4.7549	4.7713	4.7442	4.7671	Japan	0.03	0.01
Iron Ore	164.50	4.6	USD Index	93.0	93.1	92.9	93.1	UK	0.59	0.01

Data as at 7:45am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Key US share market indices hit new all-time highs and US bond yields extended their multi-day rise. The US Senate finally passed the \$550 billion infrastructure bill.

Share Markets: The Dow and the S&P 500 share market indices hit new all-time highs overnight, underpinned by a rally in energy shares and strong corporate earnings reports. The Dow rose 163 points (or +0.5%) and the S&P lifted 4 points (or +0.1%). However, the Nasdaq lost momentum and closed 72 points weaker (or -0.5%).

Interest Rates: US bond yields lifted across the bond curve, underpinned by the rally in US equities and news that the US Senate has finally passed the \$550 billion infrastructure bill. The US 2-year yield rose 2 basis points and the US 10-year yield lifted 3 basis points.

Foreign Exchange: The AUD/USD strengthened in overnight trade, rising from an overnight low of 0.7316 to an overnight high of 0.7356. However, the AUD/USD has remained comfortably within its trading range of the last three weeks. It reflects the AUD remaining in a phase of consolidation after stepping down around 6 US cents in a short space of time - from 0.7891 on May 10 to an 8-month low of 0.7290 on July 21.

In other moves, the EUR/USD fell from an overnight high of 1.1740 to a four-month low of 1.1710.

Commodities: Oil advanced 2.7% in New York, the

biggest gain in more than two weeks. Copper rebounded from the lowest close in almost three weeks. Gold was little changed.

COVID-19: NSW recorded 356 new cases yesterday, which is a new peak for NSW. Only 102 cases were in isolation throughout their entire infectious period. Queensland recorded 3 new cases yesterday and Victoria recorded 20 new cases.

Australia: Businesses conditions and confidence deteriorated sharply in July, reflecting widespread disruptions from lockdowns. Parts of NSW, Victoria and SA were in lockdown for all or a portion of the survey period.

The business confidence index plummeted 19 points to a one-year low of -8. The index has declined markedly since hitting an all-time high in April and is now well below the long-run average.

The conditions index dropped 14 points to +11 but remained slightly above the long run average of +6. The index is at its lowest level since late 2020, having fallen almost 70% from its record high in May of 36. Government support measures have likely prevented a deeper decline.

Unsurprisingly, the result was led by NSW alongside the extended lockdown in the state. However, conditions and confidence declined across all states. The declines were also widespread across industries. The fall in conditions was largest for

transport & utilities and recreation & personal services.

A contraction in GDP has effectively been sealed for the third quarter. The fall in activity will continue to weigh on business conditions over the coming period. The extent of the hit hinges on when restrictions are eased. And this depends critically on the evolution of the outbreaks and progress in the vaccine rollout.

Separately, the Roy Morgan weekly consumer confidence index fell 3.2 points to 98.6 in the week ending 8 August, slipping below the neutral level of 100 for the first time since November 2020. During this week, new lockdowns were imposed in Queensland and Victoria. The index is below the long-run average, but still well above the 2020 low in the mid 60s.

Europe: Germany's ZEW measure of economic expectations fell to 40.4 in August, from 63.3 in July. It is the lowest level since November 2020. It also missed consensus expectations for a result of 57.5 and is the third consecutive fall. The decline reflects the more challenging economic environment.

New Zealand: Retail card spending rose by 0.6% in July, following a revised gain of 0.8% in June. The increase in card spending adds to the picture of firm household demand and reinforces our expectation the Reserve Bank of New Zealand will hike its policy rate by 25 basis points at next week's meeting.

United States: US productivity slowed in the second quarter. Non-farm productivity, which measures output per worker, increased at a 2.3% annualised rate in Q2. Data for the first quarter was revised lower to show productivity rising at a 4.3% rate instead of the previously reported 5.4% pace. Overall, output is now 1.2% above pre-pandemic levels but hours worked remained 2.8% below it.

The NFIB small business sentiment index fell to 99.7 in July, from 102.5 in June. The report noted small business owners are "losing confidence in the strength of the economy and expect a slowdown in job creation."

The US Senate finally passed the \$550 billion infrastructure bill. It now faces a bumpier path in the House due to competing interests from Democratic moderates and progressives. Lingering bipartisanship may quickly evaporate as the Senate turns its focus to the Democrats' \$3.5 trillion budget resolution that Republicans oppose in lockstep.

Today's key data and events:

AU WBC-MI Cons. Sentiment Aug prev 108.8 (10:30am)
US CPI Jul exp 0.5% prev 0.9% (10:30pm)

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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