

Morning Report

Monday, 12 April 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,995	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,801	0.9%	10 yr bond	98.25			-0.03	90 day BBSW	0.04	0.00
Japan Nikkei	29,768	0.2%	3 yr bond	99.76			-0.01	2 year bond	0.08	0.00
China Shanghai	3,617	-0.9%	3 mth bill rate	99.95			-0.01	3 year bond	0.26	0.00
German DAX	15,234	0.2%	SPI 200	6,980.0			6	3 year swap	0.31	0.01
UK FTSE100	6,916	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.76	0.02
Commodities (close & change)*			TWI	63.9	-	-	63.8	United States		
CRB Index	186.7	-0.6	AUD/USD	0.7652	0.7661	0.7588	0.7621	3-month T Bill	0.01	0.00
Gold	1,743.88	-12.0	AUD/JPY	83.62	83.79	83.04	83.61	2 year bond	0.15	0.01
Copper	8,934.75	-83.5	AUD/GBP	0.5572	0.5576	0.5547	0.5560	10 year bond	1.66	0.04
Oil (WTI)	59.36	0.0	AUD/NZD	1.0842	1.0851	1.0819	1.0837	Other (10 year yields)		
Coal (thermal)	82.90	-0.4	AUD/EUR	0.6422	0.6428	0.6385	0.6405	Germany	-0.30	0.03
Coal (coking)	117.33	-0.7	AUD/CNH	5.0169	5.0217	4.9838	4.9999	Japan	0.11	0.01
Iron Ore	165.38	0.2	USD Index	92.1	92.4	92.0	92.2	UK	0.77	0.03

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US share markets marched higher on Friday to make new all-time highs. Global bond yields also rose, fanned by strong gains in US and Chinese wholesale inflation.

Share Markets: The Dow Jones index added 297 points (or +0.9%) and the S&P 500 index lifted 32 points (or +0.8%). Both indexes hit new all-time highs. Meanwhile, the Nasdaq increased 71 points (or +0.5%) and is near its all-time high.

The US earnings season kicks off this week. JPMorgan, Goldman and Wells Fargo release earnings on Wednesday, Citi is Thursday and Morgan Stanley at the week's end.

Interest Rates: US bond yields rose on Friday and the US bond yield curve steepened, as US wholesale inflation rose by more than expected in March. The US 2-year bond yield rose 1 basis point while the US 10-year bond rate rose 4 basis points.

Foreign Exchange: The US dollar index fell on Friday. The Australian dollar against the US dollar stuck to the trading range it has become familiar with since early this month. In Friday's session the AUD/USD exchange rate traded a range of 0.7588-0.7661.

Commodities: Gold futures rose last week on renewed demand last week. CFTC data showed hedge fund managers boosted their net bullish bets to a six-week high of 77,406, up 26,943 on the

previous week.

COVID-19: The Australian government's long-term target of fully vaccinating 20 million adults by the end of October has been abandoned.

Lockdown restrictions in England are set to ease this week with restaurants, pubs and shops reopening but the ban on foreign travel remaining. Going the other way: France is closing all schools for three weeks, starting April 12.

India is suffered a new daily record of cases over the weekend.

Australia: The AiG's performance of services index lifted in March to 58.7, from 55.8 in February.

The Reserve Bank's Financial Stability Review (FSR), published on Friday, took a balanced approach to the risks for the Australian economy associated with rising house prices.

On the one hand it points out that in an environment of accommodative financial conditions with rising asset prices it is particularly important that there is not excessive risk-taking by the financial sector. Excessive risk-taking by the financial sector could lift the debt-related risks to the economy and financial system from a fall in asset prices and borrowers' income.

The Reserve Bank (RBA) describes these risks as looser lending standards for individual loan assessments or a relaxation of internal limits on the

share of riskier loans or from increased risk-taking by optimistic borrowers. These could see a deterioration in the average quality of new lending.

To date, however, the RBA describes lending standards as largely unchanged and remaining robust: "the share of high LVR lending increased over the second half of 2020 but remains low by historical standards".

Furthermore, the RBA notes that "credit growth has increased but remains modest and has mostly been driven by lending to owner occupiers" although "investor loan commitments have started to rise".

China: Data released on Friday showed that prices that Chinese factories charge wholesales for their products rose the most in almost three years in March. The producer price index lifted 4.4% in the year to March, up from an annual gain 1.7% in February. Consumer prices also rose for the first time in three months, lifting by 0.4% in March from a year earlier, from a fall of 0.2% in the year to February.

However, the monthly data had been pre-empted by a statement on Thursday from China's Financial Stability and Development Commission. The statement indicated worries among China's policymakers. The commission as part of its statement said they "must keep the basic stability of prices and pay particular attention to the trend of commodities prices." However, the statement also prioritised employment as "the largest livelihood issue".

United States: The producer price index (PPI) for final demand jumped 1.0% in March, as costs increased across the board. In the twelve months to March, the PPI surged 4.2%, which is the biggest annual rise in 9½ years and followed a 2.8% gain in February. The median expectation by economists for a milder rise of 0.5% in March.

Excluding the volatile food, energy and trade services components, PPI rose 0.6% in the month and by 3.1% over the year. The annual rise in the core PPI was also the largest rise since September 2018.

US Federal Reserve Chair Jerome Powell sees the US economy at an "inflection point." In remarks to CBS, Powell said stronger growth and hiring are coming due to vaccinations Powell said the principal risk to the US economy right now is that "the disease would spread again."

Fed Vice Chair Clarida echoed Chair Powell's comments over the outcome-based nature of the new policy framework, saying they are waiting for

"hard numbers." He added that they do not expect to raise rates until substantial further progress on goals is met, and that they will communicate as they see progress being made. The inflation rises this year are seen to be transitory.

Clarida added the strong jobs report was welcome but said there is still a deep hole.

Federal Reserve member Kaplan also confirmed that policy is not going to be pre-emptive, although not so reactive that "we're late" in addressing any rising price. On inflation, he believes some of the expected rise will be transitory, but some may stick as the labour market improves.

Geopolitical tensions arose again. The US Secretary of State Antony Blinken warned China against encroaching on Taiwan, and blamed Beijing's penchant for secrecy for helping to hasten the spread of COVID-19. Blinken decried Chinese "aggressive actions" in the Taiwan Strait, telling NBC the US stands by its commitments to ensure the island's self-defence.

He also voiced concern about Russian troops at Ukraine's border, which he said were at the highest level since the Kremlin's 2014 invasion. Blinken said the US President Joe Biden has made it clear that "if Russia acts recklessly, or aggressively, there will be costs, there will be consequences."

Today's key data and events:

EZ Retail Sales Feb exp 1.7% prev -5.9% (7pm)

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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