

Morning Report

Wednesday, 14 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,332	0.0%	Last		Overnight Chg			Australia		
US Dow Jones	34,889	-0.3%	10 yr bond	98.62	-0.05			90 day BBSW	0.03	0.00
Japan Nikkei	28,718	0.5%	3 yr bond	99.63	-0.03			2 year bond	0.09	0.00
China Shanghai	3,738	0.5%	3 mth bill rate	99.97	0.00			3 year bond	0.30	-0.01
German DAX	15,790	0.0%	SPI 200	7,255.0	4			3 year swap	0.43	0.01
UK FTSE100	7,125	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.33	0.01
Commodities (close & change)*			TWI	62.5	-	-	62.6	United States		
CRB Index	214.1	1.4	AUD/USD	0.7480	0.7503	0.7427	0.7447	3-month T Bill	0.04	-0.01
Gold	1,807.76	1.5	AUD/JPY	82.55	82.82	82.08	82.39	2 year bond	0.25	0.03
Copper	9,379.50	-109.3	AUD/GBP	0.5386	0.5404	0.5379	0.5391	10 year bond	1.42	0.05
Oil (WTI)	75.25	1.2	AUD/NZD	1.0707	1.0740	1.0696	1.0719	Other (10 year yields)		
Coal (thermal)	131.60	4.7	AUD/EUR	0.6306	0.6328	0.6295	0.6322	Germany	-0.29	0.00
Coal (coking)	206.67	1.5	AUD/CNH	4.8447	4.8525	4.8141	4.8248	Japan	0.03	-0.01
Iron Ore	210.75	0.5	USD Index	92.2	92.8	92.1	92.8	UK	0.63	-0.02

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: A surprisingly strong US inflation report reignited concerns the US Federal Reserve could tighten policy sooner than indicated. US equities declined, US yields rose, and the US dollar is higher.

Share Markets: The US inflation data weighed on US share markets. The S&P 500 fell 0.4% and the Dow declined 0.3%. Meanwhile, second quarter earnings season has kicked off. JPMorgan and Goldman Sachs reported mixed results and financial stocks declined over the session.

Elsewhere, the Dax and the ASX 200 were broadly unchanged.

Interest Rates: US 10-year yields jumped 5 basis points to 1.42% while 2-year yields rose 3 basis points to 0.25%.

Australian 10-year yields (futures) rose from 1.34% to 1.39% and 3-year futures yields increased 3 basis points to 0.38%.

Foreign Exchange: The US dollar index increased 0.6%. The AUD/USD briefly breached 0.7500 before dropping to 0.7447 alongside the strength in the US dollar.

Commodities: Oil, gold and most base metals traded higher.

COVID-19: NSW recorded 89 new locally acquired COVID-19 cases yesterday. The Premier announced that essential workers who need to travel outside

Greater Sydney will be required to return a negative test result every seven days, whilst essential workers from Fairfield will need to be tested every 3 days.

Yesterday, the federal government along with the NSW state government announced further support for businesses and individuals. A new business support payment will be available to businesses with an annual turnover between \$75,000 and \$50 million who can demonstrate a 30% decline in turnover. In an effort to keep businesses and employees connected, eligible entities will need to maintain their current staffing levels to receive the payment. The payments are between \$1,500 and \$10,000 per week based on payroll levels. For non-employing businesses, such as sole traders, payments will be set at \$1,000 per week. Businesses with a turnover of between \$30,000 and \$75,000 will be eligible for a \$1,500 fortnightly payment.

The existing COVID-19 assistance payment will be further expanded and increased. From week four of a lockdown, hotspots declared by the federal government will see payments increase from \$500 to \$600 if a person has lost 20 or more hours of work a week or from \$325 to \$375 if a person has lost between eight and 20 hours of work a week. From July 18, the payment will be made available to those outside federal governments declared hotspots which will be funded by the NSW state

government. The same support will be offered to any other state or territory that experiences an extended lockdown.

Australia: Business confidence and conditions took a hit in June as NSW began its current lockdown and Queensland, WA and the NT also saw lockdowns of varying lengths.

The conditions index fell to 24 in June, 12 points below the record high of 36 in May. The confidence index fell to 11, 9 points below the May level of 20. While both indices fell, they have been elevated for a number of months and remain well above long-run averages.

Conditions deteriorated across all states and territories, apart from WA. The decline was largest in Victoria following the lockdown in Melbourne in late-May and early-June.

The hit to confidence was the largest for the recreation & personal services sector, which tends to be hit hard by pandemic-related restrictions. Confidence declined across all states and territories, with NSW and Queensland leading the falls.

Despite the hit from lockdowns, the survey continues to signal that businesses remain upbeat about Australia's future economic prospects. This will support the ongoing recovery in business investment and further jobs growth. However, if the NSW lockdown is dragged out, there is a risk of a more significant hit to business confidence.

In other data released yesterday, the Roy Morgan consumer confidence index rose 2.2 points to 110.0 in the week ending 11 July, following 107.8 in the previous week. Consumer confidence in Sydney rose 3.7% despite the lockdown being extended by a week. This could be attributed to the federal government easing the eligibility criteria for the \$500 assistance payment. The end of the recent snap lockdowns in Queensland, WA, and the NT also helped boost consumer confidence.

China: China's trade balance continued to widen in June to US\$51.5bn, the highest trade surplus since January this year. Exports grew 32.2% over the year to June, above consensus expectations of 22.9%. Growth was supported by global demand for medical goods and work-from-home equipment. Imports grew 36.7% over the year to June, above consensus expectations of 29.3%. This was down from 51.1% in May.

United States: Inflation data once again came in stronger than expected which some investors interpreted as testing the Fed's commitment to

ultra-easy monetary policy. Headline CPI rose 0.9% in June (vs 0.5% expected) taking annual growth to 5.4% – the highest since 2008. Core CPI also beat expectations, rising 0.9% in the month to be 4.5% higher over the year. However, the underlying components reinforced the Fed's view that the increase will be transitory. Used vehicle sales accounted for more than a third of the increase. Categories associated with the reopening of the economy like hotels, car rentals and airfares also accounted for a sizeable share of the rise.

San Francisco Fed President Daly brushed aside the CPI report as an anticipated "pop" while also saying the Fed could start to taper "at the end of this year or early next".

Today's key data and events:

NZ Net Migration May prev 1037 (8:45am)
 AU WBC-MI Cons. Sentiment Jul prev 107.2 (10:30am)
 NZ RBNZ Monetary Policy Setting (12pm)
 Official Cash Rate exp 0.25% prev 0.25%
 JN Industrial Production May Final prev -5.9% (2:30pm)
 UK CPI Jun exp 0.2% prev 0.6% (4pm)
 EZ Industrial Production May exp -0.2% prev 0.8% (7pm)
 US PPI Final Jun y/y exp 6.7% prev 6.6% (10:30pm)
 US Federal Reserve's Beige Book (4am)

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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