

Morning Report

Wednesday, 15 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
			Last		Overnight Chg		Australia			
S&P/ASX 200	7,437	0.2%								
US Dow Jones	34,578	-0.8%	10 yr bond	98.80	0.03		90 day BBSW	0.01	0.00	
Japan Nikkei	30,670	0.7%	3 yr bond	99.78	0.02		2 year bond	0.01	0.00	
China Shanghai	3,839	-1.4%	3 mth bill rate	99.98	0.00		3 year bond	0.22	-0.03	
German DAX	15,723	0.1%	SPI 200	7,391.0	-42		3 year swap	0.41	0.01	
UK FTSE100	7,034	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.25	-0.02
Commodities (close & change)*			TWI	61.4	-	-	61.3	United States		
CRB Index	221.5	0.3	AUD/USD	0.7370	0.7373	0.7314	0.7322	3-month T Bill	0.03	-0.01
Gold	1,804.51	10.8	AUD/JPY	81.09	81.15	80.17	80.33	2 year bond	0.21	-0.01
Copper	9,554.75	-132.8	AUD/GBP	0.5325	0.5326	0.5286	0.5303	10 year bond	1.28	-0.04
Oil (WTI)	70.46	0.0	AUD/NZD	1.0354	1.0362	1.0297	1.0317	Other (10 year yields)		
Coal (thermal)	177.80	-0.1	AUD/EUR	0.6239	0.6242	0.6196	0.6203	Germany	-0.34	-0.01
Coal (coking)	365.50	0.0	AUD/CNH	4.7483	4.7508	4.7084	4.7131	Japan	0.05	0.00
Iron Ore	119.50	-1.2	USD Index	92.7	92.7	92.3	92.7	UK	0.74	-0.01

Data as at 7:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The risk averse mood persisted, with US equities declining for a second day. A US inflation report showed consumer price pressures moderated a little in August. US bond yields subsequently fell on speculation the Fed will have more flexibility over when to taper bond buying.

Share Markets: US equities declined for a second day. The Dow fell 0.8% and the S&P 500 dropped 0.6%. The ASX 200 edged up 0.2%.

Interest Rates: US 10-year yields declined 4 basis points to 1.28% following the US inflation report while 2-year yields were broadly unchanged.

Australian 10-year (futures) yields fell 3 basis points to 1.21% while 3-year futures yields hovered around 0.23%.

Foreign Exchange: The Australian dollar declined alongside other risk-sensitive currencies, falling from 0.7370 to 0.7322 against the US dollar. The US dollar was unchanged over the day.

Commodities: Oil was little changed, gold advanced, and iron ore edged lower.

COVID-19: NSW recorded 1,127 new cases yesterday and two deaths. Victoria recorded 445 cases, the ACT recorded 22 cases and Queensland recorded 1 case.

The lockdown in the ACT which was due to end on 17 September has been extended until 15 October.

Australia: Business confidence and conditions

increased slightly in August, following large declines in July. The improvement was somewhat surprising given further lockdowns across the country.

The confidence index edged up from -7 to -5 but remained negative and below its long-run average. The conditions index also edged higher from 10 to 14, above its long-run average.

Business confidence and conditions have remained much more resilient this year than in the early stages of the pandemic. This likely reflects the strong momentum in the economy heading into the recent lockdowns and confidence that the vaccine rollout will see an end to lockdowns.

The improvement occurred despite Victoria entering its sixth lockdown just prior to the survey period, in addition to Queensland and the ACT going into lockdown. Conditions and confidence bounced back in NSW and SA. Victoria saw a large fall in confidence.

The resilience of business confidence will help support the rebound in activity when restrictions ease. However, case numbers are likely to remain high and consumers may be more cautious in returning to their usual activities than following previous lockdowns.

Reserve Bank (RBA) Governor Lowe gave a speech yesterday which largely reiterated messages from the recent Board meeting. He advised the RBA expects the economic contraction is likely to be "at

least 2.0% in the September quarter, and possibly significantly larger than this". He also noted the RBA expects positive growth in the December quarter alongside increasing vaccinations, easing restrictions, substantial government support and higher household wealth boosted by the sharp increase in dwelling prices.

On monetary policy, the Governor pushed back on expectations that the RBA will lift the cash rate earlier than 2024, noting he finds it "difficult to understand why rate rises are being priced in next year or early 2023". He continued to highlight that wages growth remains weak and that it will likely need to be above 3% to get inflation back into the 2–3% target band.

On the property market, the Governor flagged the Council of Financial Regulators is "discussing potential regulatory steps if lending standards deteriorate or credit growth accelerates too much." He acknowledged that monetary policy is contributing to higher housing prices but that the best way to address these concerns is to influence land values. He highlighted "taxation and social security systems; planning and zoning restrictions; the type of dwellings that are built; and the nature of our transportation networks" as important factors.

Separately, the Roy Morgan weekly consumer confidence index rose 3.1% to 103.1 in the week ending 12 September. The increase comes as consumer confidence jumped 10.6% in Sydney as the NSW government released its roadmap out of lockdown.

United Kingdom: The unemployment rate declined to 4.6% as expected in the three months to July, from 4.7% in June. This is the lowest reading since August 2020. Meanwhile, employment rose by 183k. These data suggest the UK labour market was in a strong position over the summer.

United States: Headline and core inflation both came in weaker than expected in August. Headline inflation logged 0.3% in August, the weakest growth in seven months, while the annual inflation rate edged down to 5.3% from 5.4%. Core inflation rose only 0.1% in the month and 4.0% over the year. The slight moderation speaks in favour of the argument spruiked by the Federal Reserve, that supercharged price pressures are transitory.

Today's key data and events:

NZ Current Acct. Q2 exp -\$1.7bn prev -\$2.9bn (8:45am)
AU WBC-MI Cons. Conf. Sep prev 104.1 (10:30am)
CH Retail Sales Aug y/y exp 7.0% prev 8.5% (12pm)
CH Ind. Production Aug y/y exp 5.8% prev 6.4% (12pm)
UK CPI Aug exp 0.5% prev 0.0% (4pm)
EZ Ind. Production Jul exp 0.6% prev -0.3% (7pm)
US NY Empire Mfg Sep exp 18.0 prev 18.3 (10:30pm)
US Import Price Index Aug exp 0.2% prev 0.3% (10:30pm)
US Export Price Index Aug exp 0.4% prev 1.3% (10:30pm)
US Ind. Production Aug exp 0.5% prev 0.9% (11:15pm)

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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