

Morning Report

Monday, 16 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,629	0.5%			Last	Overnight Chg		Australia		
US Dow Jones	35,515	0.0%	10 yr bond	98.83		0.03		90 day BBSW	0.02	0.00
Japan Nikkei	27,977	-0.1%	3 yr bond	99.69		0.01		2 year bond	0.05	0.00
China Shanghai	3,685	-0.2%	3 mth bill rate	99.99		0.00		3 year bond	0.31	0.01
German DAX	15,977	0.3%	SPI 200	7,536.0		-9		3 year swap	0.42	-0.01
UK FTSE100	7,219	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.22	0.03
Commodities (close & change)*			TWI	61.7	-	-	61.5	United States		
CRB Index	217.0	0.0	AUD/USD	0.7341	0.7381	0.7333	0.7368	3-month T Bill	0.05	0.00
Gold	1,779.74	26.8	AUD/JPY	81.06	81.11	80.75	80.80	2 year bond	0.21	-0.02
Copper	9,542.75	105.8	AUD/GBP	0.5315	0.5326	0.5309	0.5314	10 year bond	1.28	-0.08
Oil (WTI)	68.44	-0.7	AUD/NZD	1.0478	1.0490	1.0456	1.0462	Other (10 year yields)		
Coal (thermal)	151.35	0.8	AUD/EUR	0.6256	0.6258	0.6240	0.6247	Germany	-0.47	-0.01
Coal (coking)	220.17	0.4	AUD/CNH	4.7563	4.7812	4.7524	4.7728	Japan	0.03	0.00
Iron Ore	162.05	2.7	USD Index	93.0	93.0	92.5	92.5	UK	0.57	-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 consumer sentiment unexpectedly recorded a sharp drop in early August, threatening the outlook for consumer spending. Share markets still managed to eke out gains and hit new all-time highs, but the US dollar was weaker and US bond yields fell. Indeed, the 10-year US bond yield had its biggest daily drop in nearly a month.

The spread of the COVID-19 outbreak in NSW deteriorated over the weekend. A contraction in national GDP is locked in for the September quarter. There is now also a growing risk of a contraction in the December quarter and a technical recession with no peak in NSW infections yet in sight.

Share Markets: US share markets moved slightly higher. The Dow and the S&P 500 indexes hit new all-time highs again. The Dow rose 16 points and the S&P 500 lifted 7 points. The Nasdaq also rose 7 points.

Interest Rates: The sharp and unexpected drop in US consumer sentiment contributed to a rally in bonds (i.e. bond prices rose and yields fell). The US 2-year yield dropped 2 basis points to 0.21%. The US 10-year yield fell 8 basis points to 1.28%; it is the biggest daily decline in nearly a month.

Foreign Exchange: The US dollar index began to be sold off in the Asian trading session on Friday. The sell-off accelerated with the release of significantly

weaker-than-expected consumer sentiment data in the US. The US dollar index fell from a high of 93.0 to a low of 92.5.

The AUD/USD received a leg up from the broad-based depreciation in the USD. It rose from a Friday low of near 0.7330 to a high of 0.7381. However, the AUD/USD remains well within recent trading ranges. It would need to pierce 0.7430 comfortably for us to be convinced the AUD/USD is moving to a new, higher trading range.

Commodities: Oil fell but other commodities mostly rose.

COVID-19: NSW recorded 415 new cases yesterday. Elsewhere, the ACT recorded 2 new cases and Victoria 25. The NSW government widened the lockdown to all of NSW on Saturday and toughened lockdown rules, including a hike in fines.

The Federal government announced yesterday that it had procured 1 million extra Pfizer vaccines from Poland with half of these to be allocated to the 12 LGAs in NSW that are at most risk from the outbreak.

Australia: The wider lockdown in NSW, the ongoing rise in daily infections in NSW, the spread of the virus to the ACT and the recent renewed lockdown in Victoria suggests the national downturn in economic activity in the September quarter will be bigger than previously predicted.

A contraction in national GDP for this current September quarter is locked in. But with NSW infections not yet hitting a peak, there is now also a rising risk that there will be another contraction in the December quarter, marking a technical recession. A recession is not yet our base-case view but the longer it takes for NSW to reach a peak in infections, the bigger the threat that the economic rebound will not arrive early enough in the December quarter for another contraction to be avoided.

Lifting the vaccination rate will help, but other economies that are arguably coping more successfully with the Delta variant have shown that vaccination rates need to be at around 80% or higher.

New Zealand: The BusinessNZ performance of manufacturing index rose 1.7 points to 62.6 in July.

United States: The University of Michigan measure of consumer sentiment slumped 11 points to 70.2 in early August, which is the lowest level in nearly a decade. Both the current conditions and expectations components fell, but the expectations component fell by more, from 79 in July to 65.2 in August.

The survey revealed that Americans have become more concerned about the prospects for the economy, inflation and the recent surge in COVID-19 cases. The outcome fell well short of consensus estimates.

The slump in confidence risks a more pronounced slowing in economic growth in coming months should consumers rein in spending.

The 5-10-year ahead inflation expectations rose from 2.8% to 3.0%.

Today's key data and events:

UK Rightmove House Prices Aug prev 0.7% (9:01am)
 JN GDP Q2 Prel. exp 0.1% prev -1.0% (9:50am)
 CH Industrial Production Jul exp 7.9% prev 8.3% (12pm)
 CH Retail Sales Jul y/y exp 10.9% prev 12.1% (12pm)
 JN Industrial Production Jun Final prev 6.2% (2:30pm)
 US NY Empire Manufacturing Aug exp 28.5 prev 43 (10:30pm)
 US Total Net TIC Flows Jun prev \$105.3bn (6am)

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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