

Morning Report

Wednesday, 16 June 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,379	0.9%			Last	Overnight Chg		Australia		
US Dow Jones	34,299	-0.3%	10 yr bond	98.45				90 day BBSW	0.02	0.00
Japan Nikkei	29,441	1.0%	3 yr bond	99.66				2 year bond	0.01	0.00
China Shanghai	3,728	-0.9%	3 mth bill rate	99.97				3 year bond	0.25	0.00
German DAX	15,730	0.4%	SPI 200	7,377.0				3 year swap	0.33	0.00
UK FTSE100	7,172	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.50	0.01
Commodities (close & change)*			TWI	63.8	-	-	63.7	United States		
CRB Index	210.2	-0.9	AUD/USD	0.7713	0.7717	0.7674	0.7689	3-month T Bill	0.01	0.00
Gold	1,859.02	-18.5	AUD/JPY	84.90	84.93	84.52	84.63	2 year bond	0.16	0.00
Copper	9,953.75	-35.5	AUD/GBP	0.5467	0.5479	0.5450	0.5459	10 year bond	1.49	0.00
Oil (WTI)	72.42	0.3	AUD/NZD	1.0797	1.0804	1.0771	1.0793	Other (10 year yields)		
Coal (thermal)	119.75	-1.3	AUD/EUR	0.6364	0.6367	0.6332	0.6340	Germany	-0.23	0.02
Coal (coking)	172.75	0.8	AUD/CNH	4.9418	4.9443	4.9189	4.9254	Japan	0.05	0.01
Iron Ore	207.85	-3.3	USD Index	90.5	90.7	90.3	90.5	UK	0.76	0.02

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: Markets are in a holding pattern ahead of tomorrow's Federal Open Market Committee announcement. US equities declined and US bond yields were mostly unchanged following a mixed bag of local data.

Share Markets: US stocks slipped on weaker-than-expected retail sales data and an uptick in producer prices. The Dow declined 0.3%.

In Europe, the Dax was up 0.4%. The ASX 200 gained 0.9%.

Interest Rates: US treasury yields were broadly unchanged. The Australian 10-year yields edged up 1 basis point to 1.50%.

Foreign Exchange: The Australian dollar moved lower against the US dollar, declining from 0.7713 to 0.7689. The US dollar was unchanged on the day.

Commodities: Copper and most other base metals declined. Gold slipped. Oil edged higher.

Australia: The Reserve Bank Board (RBA) met on June 1 and left policy settings unchanged. The minutes from the meeting were released yesterday and reaffirmed our expectation that the 3-year yield target under the yield curve control (YCC) will not be rolled to the November 2024 bond and that quantitative easing (QE) will transition to an open-ended, flexible model.

The minutes flag a key consideration for whether YCC will be extended is an assessment of the inflation target being met some time in 2024. In

May, the RBA's forecast has inflation reaching 2% by June 2023. Reading between the lines, this suggests there would not be a need to extend the target.

The minutes also laid out the options of the future of QE and effectively ruled out the prospect of ending the program at the conclusion of the current round of purchases in September. It was noted that members thought it was "premature to consider ceasing the program". The minutes also outlined the possibility of moving to a QE model where "the pace of the bond purchases is reviewed more frequently, based on the flow of data and the economic outlook". This approach is consistent with the expectations we laid out in our Weekly Economic Outlook on 7 June.

We believe it is unlikely the cash rate will increase before 2024, although we cannot rule out the possibility of a hike in 2023.

In other data released yesterday, the house price index published by the Australian Bureau of Statistics rose 5.4% in the March quarter, following a rise of 3.0% in the December quarter. Annually, house prices rose 7.5%. The strong demand for housing was supported by record low interest rates, government initiatives such as the HomeBuilder scheme and elevated consumer confidence. Across all the states, Sydney had the highest increase in prices in the quarter with a 6.1% gain, followed by Melbourne and Brisbane, which rose 5.1% and

4.0%, respectively.

Europe: The Eurozone trade surplus was narrower in April at €9.4bn from €18.3bn in March.

United Kingdom: The unemployment rate fell to 4.7% in April from 4.8% in the previous month, as expected. Employment rose by 113k, falling short of consensus forecasts for a 135k increase.

United States: Retail sales were weaker than expected, falling 1.3% in May, although April was revised higher to 0.9% from flat. Excluding car sales, retail sales fell 0.7%. The data signals that consumers are shifting more spending to services as travel picks up and entertainment venues reopen.

In contrast, producer prices rose by more than expected, with PPI increasing 0.8% in May. Over the year, PPI is up 6.6%, the largest headline rise since November 2010. Most of the increase came from a rise in goods prices, which leapt 1.5% in May. Materials shortages, shipping bottlenecks and rising labour expenses have pushed up producer prices. Federal Reserve officials insist the upwards pressure on prices will likely be temporary but others are concerned there could be a more sustained pickup in inflation.

Industrial production rose 0.8% in May, a touch stronger than consensus forecasts, and capacity utilisation rose to 75.2% from 74.6% in April.

The Empire State manufacturing activity survey, a measure of manufacturing activity in the New York region, fell to 17.4 from 24.3 in June. The results were mixed across the subcomponents.

The NAHB housing index, a measure of homebuilder confidence, fell to 81 in June from 83 last month. Higher costs and a decline in the availability of building materials pushed down sentiment.

Today's key data and events:

NZ Current Acct. Q1 exp -\$2.5bn prev -\$2.7bn (8:45am)
 AU RBA Lowe Speech in Toowoomba (10:10am)
 AU WBC Leading Index May prev 0.2% (10:30am)
 AU ABS Household Impacts of COVID-19 Survey (11:30am)
 CH Retail Sales May y/y exp 14.0% prev 17.7% (12:00pm)
 CH Ind. Prod. May y/y exp 18.0% prev 20.3% (12:00pm)
 UK CPI May exp 0.3% prev 0.6% (4:00pm)
 US Housing Starts May exp 3.9% prev -9.5% (10:30pm)
 US Building Permits May exp -0.2% prev 0.3% (10:30pm)
 US Import Price Index May exp 0.8% prev 0.7% (10:30pm)
 US Export Price Index May exp 0.8% prev 0.8% (10:30pm)
 US FOMC Policy Decision exp 0.25% prev 0.25% (4:00am)

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.

Matthew Bunny, Economist

Ph: 02-8254-0023

Contact Listing

Chief Economist

Besa Deda

dedab@banksa.com.au

(02) 8254 3251

Economist

Matthew Bunny

matthew.bunny@banksa.com.au

(02) 8254 0023

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