

Morning Report

Thursday, 17 June 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,386	0.1%	Last		Overnight Chg			Australia		
US Dow Jones	34,034	-0.8%	10 yr bond	98.35	-0.09			90 day BBSW	0.02	0.00
Japan Nikkei	29,291	-0.5%	3 yr bond	99.61	-0.05			2 year bond	0.02	0.00
China Shanghai	3,688	-1.1%	3 mth bill rate	99.97	0.00			3 year bond	0.26	0.02
German DAX	15,711	-0.1%	SPI 200	7,394.0	6			3 year swap	0.33	0.01
UK FTSE100	7,185	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.55	0.05
Commodities (close & change)*			TWI	63.7	-	-	63.5	United States		
CRB Index	210.2	0.0	AUD/USD	0.7689	0.7716	0.7607	0.7611	3-month T Bill	0.02	0.01
Gold	1,811.47	-47.6	AUD/JPY	84.63	84.76	84.07	84.22	2 year bond	0.21	0.08
Copper	9,551.75	-402.0	AUD/GBP	0.5459	0.5466	0.5433	0.5441	10 year bond	1.58	0.08
Oil (WTI)	71.63	-0.5	AUD/NZD	1.0793	1.0804	1.0768	1.0789	Other (10 year yields)		
Coal (thermal)	117.00	0.9	AUD/EUR	0.6340	0.6365	0.6334	0.6346	Germany	-0.25	-0.02
Coal (coking)	170.75	-2.0	AUD/CNH	4.9254	4.9353	4.8960	4.9005	Japan	0.05	0.00
Iron Ore	204.10	-1.7	USD Index	90.5	91.4	90.4	91.4	UK	0.74	-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: US stocks fell and bond yields increased after the Federal Reserve disclosed they expect two interest rate increases by the end of 2023. The US dollar jumped higher.

Share Markets: US stocks dropped on the Federal Open Market Committee (FOMC) decision, with the S&P 500 losing as much as 1.0% before recovering somewhat. The Dow finished down 0.8% and the Nasdaq declined 0.2%. The ASX 200 edged up 0.1%.

Interest Rates: US treasury yields jumped after the Federal Reserve meeting, with the 10-year increasing 8 basis points to 1.58%. Australian 10-year yields increased 5 basis points to 1.55%.

Foreign Exchange: The US dollar strengthened sharply. Subsequently the Australian dollar dropped to 0.7611 from a high of 0.7716 against the US dollar – a two-month low.

Australia: The Fair Work Commission raised the minimum wage by 2.5%, more than double the rate of inflation. This will increase the hourly rate of more than 2.2 million workers from \$19.84 to \$20.33. The commission said the decision followed the economy's stronger-than-expected economic recovery. The wage rise, usually effective from July 1, will be delayed by a few months for some sectors.

The Westpac-Melbourne Leading index, which indicates the likely pace of economic activity relative to trend three to nine months into the

future, eased from 2.9% in April to 1.5% in May. The growth rate in the leading index has normalised significantly over the last six months to signal a more sustainable above trend growth rate through the remainder of 2021 and 2022.

China: Activity is holding up in China, although there are signs the rapid recovery stage is over. Retail sales rose 12.4% in the 12 months to May, down from 17.7% in April. This was well below the consensus forecast. Industrial production growth eased further in May to 8.8% in year-ended terms from 9.8% in April.

New Zealand: The Reserve Bank of New Zealand (RBNZ) has had debt serviceability restrictions added to its macroprudential toolkit to help rein in the country's red-hot housing market. This would allow the central bank to impose debt-to-income (DTI) limits. The RBNZ estimates it could take six months or more to design and implement a DTI limit and did not specify what it might be. However, RBNZ analysis suggests cap of 6- or 7-times annual income could be appropriate.

New Zealand's current account deficit widened to NZ\$2.9 billion in the March quarter. This takes the deficit to 2.2% of GDP over the year to March. The widening in the deficit largely reflected the loss of income generated from international tourism. There was also a sharp lift in goods imports reflecting the recovery in demand since restrictions eased and a catch-up of previous delays in

shipments. Goods exports fell a little during the quarter due to a temporary drop in volumes.

United Kingdom: Consumer price inflation for May surprised to the upside, with headline CPI increasing to 2.1% in year-end terms. PPI rose to 4.6% over the year.

United States: The FOMC meeting left policy settings unchanged, and the statement was similar to previous meeting. However, the Fed brought forward its rate hike forecast, predicting two rate increased by the end of 2023, according to the median of expectations in the dot plot. Chair Powell advised investors should take the revised dot plot with “a big grain of salt”.

Economic forecasts were revised up to reflect the improvement seen to date. This year’s GDP estimate increased to 7.0% from 6.5% and the PCE inflation forecast – the Fed’s preferred measure of inflation – lifted to 3.4% from 2.4%.

The central bank pledged to continue asset purchases at its \$120 billion monthly pace until substantial further progress is made on employment and inflation. In the press conference, Powell acknowledged they are now “talking about talking about” tapering.

Housing starts rose 3.6% in May following a 9.5% decline in April, while applications for building permits declined 3.0% to a seven-month low. These data could suggest the pace of residential construction is moderating alongside a run-up in the cost of building materials and a shortage of workers.

US import prices increased by more than expected in May, gaining 1.1% after a 0.8% increase in April. This lifted year-on-year growth to 11.3%, the strongest rise since 2011. A rise in the cost of petroleum products and supply chain bottlenecks boosted the prices of other goods, a further sign that inflation is heating up as the economy reopens. The same report also showed export prices jumped 2.2% in May, taking annual growth to 17.4%, the largest rise since the series started in 1983.

Today’s key data and events:

NZ GDP Q1 exp 0.5% prev -1.0% (8:45am)
 AU RBA Lowe Speech in Toowoomba (10:10am)
 AU RBA Bulletin (11:30am)
 AU Labour Force May (11:30 am)
 Employment Change May exp 30.0k prev -30.6k
 Participation Rate May exp 66.3% prev 66.0%
 Unemployment Rate May exp 5.7% prev 5.5%
 EZ CPI May Final May exp 2.0% prev 1.6% (7:00pm)
 US Phi. Fed Index Jun exp 30.5 prev 31.5 (10:30pm)
 US Leading Index May exp 1.3% prev 1.6% (12:00am)

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

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
