

Morning Report

Wednesday, 17 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,827	0.8%	Last		Overnight Chg			Australia		
US Dow Jones	32,826	-0.4%	10 yr bond	98.25	-0.02			90 day BBSW	0.03	0.00
Japan Nikkei	29,921	0.5%	3 yr bond	99.74	-0.01			2 year bond	0.09	0.00
China Shanghai	3,613	0.8%	3 mth bill rate	99.94	-0.01			3 year bond	0.09	0.00
German DAX	14,558	0.7%	SPI 200	6,803.0	-30			3 year swap	0.30	-0.04
UK FTSE100	6,804	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.69	-0.10
Commodities (close & change)*			TWI	64.6	-	-	64.5	United States		
CRB Index	193.4	0.0	AUD/USD	0.7756	0.7759	0.7711	0.7748	3-month T Bill	0.01	0.00
Gold	1,731.49	-0.2	AUD/JPY	84.63	84.69	84.19	84.44	2 year bond	0.15	0.00
Copper	9,157.25	63.3	AUD/GBP	0.5578	0.5595	0.5572	0.5576	10 year bond	1.62	0.01
Oil (WTI)	64.66	-0.7	AUD/NZD	1.0768	1.0785	1.0748	1.0771	Other (10 year yields)		
Coal (thermal)	85.40	-0.6	AUD/EUR	0.6501	0.6517	0.6463	0.6507	Germany	-0.34	0.00
Coal (coking)	110.20	-10.8	AUD/CNH	5.0390	5.0426	5.0140	5.0371	Japan	0.11	-0.01
Iron Ore	159.74	1.7	USD Index	91.8	92.0	91.7	91.9	UK	0.79	-0.01

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 were in a holding pattern overnight ahead of tomorrow's US FOMC meeting.

Share Markets: In the US, equities were broadly steady. The S&P 500 was down 0.2% and the Dow declined 0.4%.

Stocks were firmer in Europe, with the Dax up 0.7%. In Australia, the ASX 200 increased by 0.8%. Futures point to a soft open.

Interest Rates: The yield on Australian 10-year government bonds dropped 10 basis points to 1.69%. This followed the minutes of the RBA board meeting which reaffirmed the central bank's commitment to yield curve control. Some traders had been speculating it would be tweaked. The yield on the 3-year bond finished the day unchanged at 0.09%.

Elsewhere, bond markets were quiet. The yield on 10-year US Treasuries edged up 1 basis point. Markets are waiting on the outcome of US Fed meeting (out early tomorrow in Australia) which will include fresh economic and interest rate projections.

Foreign Exchange: The AUD/USD pair largely traded sideways overnight, briefly dipping to 0.7711 before regaining ground to close at 0.7748. The USD index strengthened slightly, increasing from 91.8 to 91.9.

Commodities: Oil retreated for a third consecutive day as markets looked for signs of a further

recovery in consumption.

Gold declined while iron ore firmed.

Australia: The Westpac-AusChamber index of business activity increased to 60.4 in the March quarter after rising to 48.8 in the December quarter and 43.4 in the September quarter. The recovery follows a dramatic fall to 24.0 in the June quarter associated with the initial lockdown and the response to COVID-19. A reading above 50 suggests activity is expanding. The survey reports that output started the year on a strong note and new orders have increased for the first time since Q4 2019.

House prices, as measured by the Australian Bureau of Statistics (ABS), rose 3.0% in the December quarter to be up 3.6% over the year.

According to statistics from the ABS and the ATO, from 14 March 2020, when the pandemic began in Australia, to 27 February 2021, payroll jobs are down just 0.2% while total wages paid have increased 1.0%. At their lowest, in April 2020, payroll jobs were down 8.5% from their 14 March 2020 level.

The minutes of the March Reserve Bank Board meeting reiterated, yet again, that the cash rate will not increase until inflation is sustainably within the 2% to 3% per annum range. For this to occur, it is likely that wages growth will need to be sustainably above 3%. The RBA does not expect these criteria to be met before 2024.

The RBA is delaying its decision on extending yield curve control, noting it would consider the question later in the year when it had more information about the economic recovery.

Markets have been speculating whether the RBA will roll the 0.1% yield target on the 3-year bond from April 2024 to November 2024. We believe that it will.

China: President Xi signalled a continued crackdown on internet platform companies. According to state media, regulators have been ordered to step up oversight of internet firms. Some analysts estimate that online sales account for more than 50% of China's retail sales. The increase in scrutiny has seen the equity prices of some Chinese tech giants come under pressure in recent days.

Europe: Markets are keeping a close eye on the AstraZeneca vaccine controversy, which has disrupted the euro area's already slow vaccine rollout. A growing number of European countries have halted AstraZeneca vaccinations over reports of a small number of patients developing blood clots after receiving the shot. France, Germany, Spain, Italy, Portugal and around a dozen other countries have now halted the vaccinations.

The ZEW survey of expectations, which measures German investor confidence, rose to 76.6 from 71.2, beating expectations. Investors were reassured by a plan laid out by the government to end coronavirus lockdowns.

United States: There was a slew of US data overnight which came out largely weaker than expected.

Retail sales dropped more than anticipated in February (3.0% vs 0.5% expected). The setback is expected to be temporary, reflecting inclement weather which impeded demand. This follows a stimulus-driven 7.6% jump in January.

Industrial production unexpectedly declined 2.2% in February, representing a pause in momentum as factories were hit by poor weather and supply-chain challenges.

Business inventories grew 0.3% in January, as expected, amid a sharp rebound in consumer spending at the start of the year. It is now taking businesses the shortest time in nearly nine years to clear shelves.

The NAHB US home builders confidence index was weaker than expected in March, declining to 82 from 84. Builder confidence peaked in November and has trended lower in the face of rising interest

rates and rising costs for materials, especially lumber. Mortgage rates, while around historical lows, have increased about 30 basis points in the last month.

Today's key data and events:

NZ Current Account Q4 exp NZD -2.865bn prev -3.521 (8:45am)

AU Roy Morgan Cons Sentiment Mar 14 prev 111.9 (9:30am)

AU WBC Leading Index Feb prev 4.48% (10:30am)

AU RBA's Kent Gives Speech Online (10:30am)

AU ABS House Price Index Q4 exp 1.8% prev 0.8% (11:30am)

AU ABS Household Impacts of COVID-19 Survey (11:30am)

US Housing Starts Feb exp -1.0% prev -6.0% (11:30pm)

US Building Permits Feb exp -7.2% prev 10.4% (11:30pm)

US FOMC Policy Meeting Concludes (5:00am)

Fed Funds exp 0.00-0.25% prev 0.00-0.25%

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

Senior Economist

Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316

Economist

Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

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