

Morning Report

Monday, 17 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,014	0.5%			Last	Overnight Chg		Australia		
US Dow Jones	34,382	1.1%	10 yr bond	98.29		0.02		90 day BBSW	0.04	0.00
Japan Nikkei	28,084	2.3%	3 yr bond	99.75		0.00		2 year bond	0.08	0.00
China Shanghai	3,658	1.8%	3 mth bill rate	99.95		-0.01		3 year bond	0.31	0.00
German DAX	15,417	1.4%	SPI 200	7,050.0		48		3 year swap	0.32	-0.01
UK FTSE100	7,044	1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.80	-0.02
Commodities (close & change)*			TWI	64.4	-	-	64.0	United States		
CRB Index	203.3	0.3	AUD/USD	0.7725	0.7787	0.7714	0.7771	3-month T Bill	0.00	-0.01
Gold	1,843.43	16.7	AUD/JPY	84.57	85.17	84.53	84.94	2 year bond	0.15	-0.01
Copper	10,215.00	-113.8	AUD/GBP	0.5498	0.5523	0.5495	0.5510	10 year bond	1.63	-0.03
Oil (WTI)	65.37	1.6	AUD/NZD	1.0735	1.0772	1.0721	1.0736	Other (10 year yields)		
Coal (thermal)	99.40	-3.1	AUD/EUR	0.6393	0.6413	0.6382	0.6394	Germany	-0.13	-0.01
Coal (coking)	118.00	0.0	AUD/CNH	4.9806	5.0141	4.9755	5.0086	Japan	0.09	-0.01
Iron Ore	198.00	-3.7	USD Index	90.7	90.8	90.3	90.3	UK	0.86	-0.04

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

Main Themes: China's regulators stepped in on Friday to warn steel makers of pricing abnormalities in what commodity analysts was a move to curb the strong growth in steel prices. Weaker-than-expected US retailing data also helped temper fears about inflation. The tempering of these fears helped equity markets rise, whilst the US dollar sold off further.

Share Markets: US share markets rallied on Friday as worries about inflation eased. The Dow Jones added 361 points (or 1.1%) and the S&P 500 index expanded 61 points (or 1.5%).

Interest Rates: US bond yields eased, as concerns about inflation moderated after the batch of weaker-than-expected data in the US. The US 2-year bond yield fell 1 basis point and the US 10-year bond yield eased 3 basis points.

Foreign Exchange: Weaker-than-expected economic data in the US spurred selling of the US dollar. The US dollar index fell to a low of 90.3 on Friday night. The Australian dollar remained in a consolidation phase after a big run up to 0.7891 against the US dollar on May 10. This consolidation phase could see the AUD/USD trade in a range of around 0.7690 – 0.7890 in the near term.

Commodities: On Friday, most traded futures contracts for iron ore, hot-rolled coils and coking coals fell from historically high levels, as China stepped up efforts to cool a blistering rally in

commodities.

Market regulators in two Chinese steel-making cities warned steel mills of runaway steel prices on Friday, in what analysts and industry insiders descried as a "strong sign" of the government's determination to curb commodity prices.

Market regulators in Tangshan, North China's Hebei Province, on Friday summoned all the iron and steel companies in the city and warned them to stay away from any pricing abnormalities, including speculations and hoarding.

Regulators noted that the surge in steel prices has far exceeded that of the rise in iron ore and threatened to impose "severe" penalties, even including revoking business licences, if steel makers are found to have engaged in illegal pricing activities. Tangshan is the world's largest steel-producing city and produced 14% of China's raw steel last year.

On the same day, the municipal government of Shanghai also summoned its steel-making companies, telling them to fulfill social responsibilities and be "cooperative" in the government's efforts to stabilise runaway steel prices.

Earlier last week, three Chinese exchanges hiked transaction fees amid rising attention from the Chinese government.

COVID-19: Singapore and Taiwan are tightening restrictions, with Singapore planning to close public schools this week amid a spike in unlinked infections.

New Zealand: The performance of New Zealand's manufacturing index fell 5.2 points to 58.4 in April, from 63.6 in March. This result is the second highest since July 2020 when New Zealand came out of the pandemic lockdown.

United States: Retail sales unexpectedly stalled in April, as the boost from stimulus cheques faded. The unchanged reading in retail sales last month followed a 10.7% surge in March, the second largest increase on record and an upward revision from the previously reported 9.7% increase.

Industrial production increased for a second straight month in April as more factories came online after being shut down by winter ice storms. Industrial production, which includes output at factories, mines, and utilities, rose 0.7% in April, after a sharp upwardly revised rise of 2.4% in March. Capacity utilisation rose from 74.4% in March to 74.9% in April.

After hitting a pandemic high in April, the University of Michigan's index of consumer sentiment fell to 82.8 in May, the lowest reading since February. The outcome was also below market expectations. Rising consumer prices and the expectation of even higher prices to come weighed on consumers' feelings about their financial health. The inflation expectations measure of this survey – the one-year ahead gauge – rose to 4.6% in May, from 3.4% and the longer-term gauge rose from 2.7% to 3.1%.

Today's key data and events:

NZ Performance of Services Index Apr prev 52.4 (8:30am)
 UK Rightmove House Prices May prev 2.1% (9:01am)
 CH New Home Prices Apr prev 0.41% (11:30am)
 CH Industrial Production Apr exp 21.1% Apr prev 24.5% (12:00pm)
 CH Retail Sales Apr y/y exp 25.0% prev 34.2% (12:00pm)
 CH Jobless Rate Apr exp 5.2% prev 5.3% (12pm)
 US NY Empire Mfg Apr exp 23.9 May prev 26.3 (10:30pm)
 US NAHB Housing Market Index May exp 83 May prev 83 (12:00am)
 US Total Net TIC Flows Mar prev 72.6 (6:00am)

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.

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