

Morning Report

Friday, 17 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,460	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	34,751	-0.2%	10 yr bond	98.68		-0.03		90 day BBSW	0.01	0.00
Japan Nikkei	30,323	-0.6%	3 yr bond	99.62		-0.02		2 year bond	0.01	0.00
China Shanghai	3,780	-1.3%	3 mth bill rate	99.97		-0.01		3 year bond	0.23	0.03
German DAX	15,652	0.2%	SPI 200	7,424.0		-18		3 year swap	0.43	0.02
UK FTSE100	7,027	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.26	0.05
Commodities (close & change)*			TWI	61.1	-	-	61.0	United States		
CRB Index	223.9	-1.5	AUD/USD	0.7334	0.7347	0.7274	0.7295	3-month T Bill	0.03	-0.01
Gold	1,753.77	-40.3	AUD/JPY	80.21	80.37	79.75	80.04	2 year bond	0.22	0.01
Copper	9,617.75	183.8	AUD/GBP	0.5297	0.5306	0.5282	0.5289	10 year bond	1.34	0.04
Oil (WTI)	72.61	0.0	AUD/NZD	1.0314	1.0320	1.0280	1.0314	Other (10 year yields)		
Coal (thermal)	164.20	-7.2	AUD/EUR	0.6206	0.6226	0.6184	0.6199	Germany	-0.30	0.00
Coal (coking)	363.50	3.2	AUD/CNH	4.7135	4.7223	4.6946	4.7076	Japan	0.05	0.02
Iron Ore	102.40	-5.0	USD Index	92.5	93.0	92.5	92.9	UK	0.82	0.04

Data as at 7:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Strong US retail sales data pushed US bond yields and the US dollar higher. While US equity markets pulled back slightly from their rebound yesterday.

Share Markets: Equity markets pulled back after posting their strongest gain since August yesterday. The S&P 500 was down 0.2% at the close, paring losses of around 0.8% during the trading day. On the other hand, the NASDAQ rose 0.1%.

The ASX 200 was up 0.6%. Futures are pointing to a lower open today.

Interest Rates: US interest rates rose following the strong retail sales data. The US 10-year yield rose 4 basis points to 1.34%. The 2-year yield was up 1 basis point to 0.22%.

The Australian 10-year government bond yield (futures) rose from 1.29% to 1.33%. The 3-year bond yield (futures) rose from 0.36% to 0.38%.

Foreign Exchange: The US dollar rose against a basket of major currencies. The USD Index was up from a low of 92.5 to a high of 93.0. It is currently trading at 92.9.

The AUD/USD pair fell on the day. It was down from a high of 0.7347 to a low of 0.7274, before recovering to trade at 0.7295 at the time of writing.

Commodities: Iron ore continued its decline due to Chinese curbs on steel production, falling by almost 5%. Gold was also down, while oil was flat.

COVID-19: NSW recorded 1,351 new cases yesterday and 12 deaths. In regional NSW, 12 more local government areas (LGAs) have exited from the stay-at-home orders. Meanwhile, the regional LGAs of Albury and Lismore have entered a 7-day lockdown.

Elsewhere, Victoria recorded 514 new cases, the ACT recorded 15 cases and Queensland recorded 1 new case.

As Victoria hits its 70% first dose vaccination target, Premier Andrews has announced that from midnight tonight there will be a slight easing to restrictions across metropolitan Melbourne and Ballarat. In addition, from midnight last night construction workers are no longer allowed to work between metropolitan Melbourne and regional Victoria.

Australia: Employment numbers saw their first big hit from the Delta outbreak in August, with a 146.3k (1.1%) decline in jobs. The fall was driven by a large drop in NSW of 172.8k. Employment in the state has now fallen by almost 220k over the past three months.

The unemployment rate fell by 0.1 percentage points to 4.5% in August. This is the lowest unemployment rate in over 12½ years. However, this is no cause for celebration. Rather, the fall in the rate reflects a large drop in the participation rate, as people dropped out of the labour force and

stopped looking for work.

Hours worked paints the true picture of the impact of lockdowns. This is because during lockdowns, employers tend to reduce the hours worked of their staff, rather than letting them go. In August, hours worked nationally fell by a sizeable 3.7%.

Hours worked in NSW have now fallen by 13.0% since June and are at their lowest point since the pandemic began.

Another important measure of slack in the labour market, the underemployment rate, increased sharply in August to 9.3%, its highest level since November last year.

We expect to see more job losses over the months ahead, and that the unemployment rate will tick up into the 5s in the coming months. However, we continue to anticipate that most of the adjustment in the labour market will come through a fall in hours worked.

On the upside, once the economy reopens, we expect the unemployment rate will resume its downwards trajectory and head towards 4.0% by the end of 2022.

In other data released yesterday, consumer inflation expectations rose to 4.4% in September, after they fell to 3.3% in August. This time last year inflation expectations were around 3.1%.

Europe: The trade balance rose to a €13.4 billion surplus in July, following a revised €11.9 billion surplus in June. This was weaker than consensus expectations of a €14.9 billion surplus. Exports rose by 1.0% over the month, while imports were up a smaller 0.3%.

New Zealand: GDP rose by 2.8% in the June quarter, following a revised 1.4% increase in the March quarter. This was well above median consensus expectations of 1.1% growth and the Reserve Bank's forecast of 0.7%, as published in the August Monetary Policy Statement. From a year earlier, the economy expanded 17.4%.

United States: Retail sales surprised to the upside, rising by 0.7% in August, above consensus expectations of -0.7%. This was up from a revised -1.8% decline in July. Sales were driven by an increase in online spending (up 5.3%). This more than offset falls in vehicle purchases, which continue to be impacted by a semiconductor shortage. In fact, excluding vehicles, retail sales were up 1.8% in the month. Child tax credit payments and back-to-school purchases contributed to the increase.

Initial jobless claims increased to 332k in the week ending 11 September. This was above consensus expectations of 322k and up from 312k in the prior week. Claims were affected by the impact of Hurricane Ida, with claims up in the hurricane-affected state of Louisiana.

The Philadelphia Fed business survey rose to 30.7 in September. This was up from 19.4 in August and above consensus expectations of 19.0.

Business inventories increased by 0.5% in July, in line with consensus expectations. This was down from 0.9% in June. A continued global shortage of semiconductors impacted the accumulation of inventories from vehicle retailers.

Today's key data and events:

NZ BusinessNZ Mfg PMI Aug prev 62.6 (8:30am)
EZ CPI Core y/y Aug Final exp 1.6% prev 1.6% (7pm)
UK Retail Sales Aug exp 0.5% prev -2.5% (4pm)
US UoM Cons. Sentiment Sep Prel. exp 72.0 prev 70.3 (12am)

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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