

Morning Report

Thursday, 18 February 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,885	-0.5%	Last		Overnight Chg			Australia		
US Dow Jones	31,625	0.3%	10 yr bond	98.60	0.01			90 day BBSW	0.01	0.00
Japan Nikkei	30,292	-0.6%	3 yr bond	99.78	-0.01			2 year bond	0.12	0.01
China Shanghai	3,832	1.4%	3 mth bill rate	99.99	0.00			3 year bond	0.12	0.01
German DAX	13,909	-1.1%	SPI 200	6,813.0	-12			3 year swap	0.18	0.02
UK FTSE100	6,711	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.40	0.08
Commodities (close & change)*			TWI	64.1	-	-	63.8	United States		
CRB Index	188.7	1.0	AUD/USD	0.7760	0.7772	0.7724	0.7753	3-month T Bill	0.04	0.00
Gold	1,775.53	-18.9	AUD/JPY	82.20	82.30	81.76	82.10	2 year bond	0.11	-0.01
Copper	8,398.25	-17.8	AUD/GBP	0.5580	0.5596	0.5566	0.5592	10 year bond	1.29	-0.03
Oil (WTI)	61.20	1.2	AUD/NZD	1.0765	1.0795	1.0751	1.0784	Other (10 year yields)		
Coal (thermal)	77.40	-2.6	AUD/EUR	0.6407	0.6439	0.6395	0.6438	Germany	-0.37	-0.02
Coal (coking)	146.10	1.4	AUD/CNH	4.9863	5.0054	4.9700	4.9909	Japan	0.10	0.01
Iron Ore	166.91	3.0	USD Index	90.5	91.1	90.5	90.9	UK	0.57	-0.05

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: There are inflation concerns in the US as the outlook for its economy improves. The FOMC is not so sure that sustainable, closer-to-target, inflation is imminent.

Share Markets: A mixed day on US markets as the Dow rose 0.3%, the Nasdaq fell 0.6% and the S&P500 was flat.

European markets had a down day. The FTSE was off 0.6% and the Dax fell 1.1%.

In Australia, the ASX200 fell 0.5% with futures down 12 points suggesting a weak start to the day's trade.

Interest Rates: The minutes of the US FOMC meeting mentioned its attitude towards reducing its monthly asset purchases. It noted that it will be 'some time' before it achieves the "substantial further progress" needed for tapering its purchases.

US 10-year government bond yields retreated 2 basis points to 1.29%. In Australia, 10-year government bond yields rose a further 8 basis points to 1.40% their highest level since a spike in mid-March 2020.

Concerns over potential US inflation appear to be driving the market, but these concerns were not matched by the FOMC minutes. The FOMC sees a few bumps in inflation on technical grounds but not a sustained increase until the labour market improves.

Three-year Australian government bond yields remain close to the RBA's target, at 0.12%, having risen 1 basis point yesterday.

Foreign Exchange: The US dollar index rose from 90.5 to 90.9 overnight. This saw downward pressure on the AUD and the NZD. AUD/NZD rose from 1.0766 to 1.0795 – a one-month high, before edging back to 1.0784.

Commodities: Iron ore pushed above \$US165 per metric tonne and West Texas Light Crude oil rose further to hold above \$US60 per barrel. Gold and copper eased back

COVID-19: New Zealand's snap lockdown ended last night after the authorities expressed confidence that the latest community outbreak of COVID-19 is small and contained.

Australia: The Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, rose 0.26% to 4.48% in January from 4.24% in December.

United Kingdom: UK CPI inflation was firmer than expected in January, slipping 0.2% for an annual inflation rate of 0.7%. Core CPI remained at 1.4% over the year.

UK house prices rose 8.5% over the year to December, up from an annual rate of 7.1% in the

year to November.

United States: The minutes of the January US FOMC meeting noted the medium-term prospects for the US economy had improved since they last met. This reflected the prospect of vaccinations, changed social distancing rules and further fiscal stimulus.

Retail spending in the US rose a very solid 5.3% in January suggesting that consumers had spent their most recent government payments and were more confident about 2021.

The NAHB homebuilder confidence index remained strong, rebounding to 84. The index remains close to its highest level in a decade having slipped to 30 in April 2020. The NAHB members warned of the impact of rising input costs but demographics, the suburban shift and low mortgage rates were cited as maintaining demand even though expectations are for growth to cool in 2021.

Today's key data and events:

AU Labour Force Jan (11:30am)

Employment Change exp 10k prev 50k

Unemployment Rate exp 6.6% prev 6.6%

Participation Rate exp 66.2% prev 66.2%

US Housing Starts Jan exp -0.6% prev 5.8% (12:30am)

US Building Permits Jan exp -1.5% prev 4.5% (12:30am)

US Philadelphia Fed Index Feb exp 20.0 prev 26.5 (12:30am)

EZ Consumer Confidence Feb exp -15.0 prev -15.5 (2:00am)

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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