

Morning Report

Monday, 19 July 2021

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|-------------------------------|----------|-------|--|--------|---------|---------------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 7,348 | 0.2% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 34,688 | -0.9% | 10 yr bond | | 98.74 | 0.03 | | 90 day BBSW | 0.02 | 0.00 |
| Japan Nikkei | 28,003 | -1.0% | 3 yr bond | | 99.67 | 0.01 | | 2 year bond | 0.05 | -0.01 |
| China Shanghai | 3,709 | -0.7% | 3 mth bill rate | | 99.97 | 0.00 | | 3 year bond | 0.30 | 0.01 |
| German DAX | 15,540 | -0.6% | SPI 200 | | 7,232.0 | -37 | | 3 year swap | 0.43 | -0.01 |
| UK FTSE100 | 7,008 | -0.1% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 1.28 | 0.00 |
| Commodities (close & change)* | | | TWI | 62.4 | - | - | 62.2 | United States | | |
| CRB Index | 212.6 | 0.3 | AUD/USD | 0.7424 | 0.7443 | 0.7392 | 0.7403 | 3-month T Bill | 0.04 | 0.00 |
| Gold | 1,812.05 | -17.4 | AUD/JPY | 81.53 | 81.95 | 81.35 | 81.47 | 2 year bond | 0.22 | 0.00 |
| Copper | 9,391.50 | -61.3 | AUD/GBP | 0.5369 | 0.5392 | 0.5361 | 0.5377 | 10 year bond | 1.29 | -0.01 |
| Oil (WTI) | 71.81 | 0.2 | AUD/NZD | 1.0630 | 1.0635 | 1.0557 | 1.0571 | Other (10 year yields) | | |
| Coal (thermal) | 127.20 | 3.0 | AUD/EUR | 0.6284 | 0.6300 | 0.6262 | 0.6269 | Germany | -0.35 | -0.02 |
| Coal (coking) | 207.67 | 0.2 | AUD/CNH | 4.7977 | 4.8142 | 4.7867 | 4.7947 | Japan | 0.03 | 0.01 |
| Iron Ore | 214.00 | 0.1 | USD Index | 92.6 | 92.8 | 92.5 | 92.7 | UK | 0.63 | -0.04 |

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: Worries about rising prices in the US and weaker-than-expected sentiment data overwhelmed robust retailing data. This led to a risk-averse mood among investors.

Share Markets: The Dow fell 299 points (or -0.9%), the S&P 500 index dropped 33 points (or -0.8%) and the Nasdaq declined 116 points (or -0.8%).

Interest Rates: US bond yields finished the sessions little changed. The US 2-year bond yield was unchanged at 0.22% and the 10-year bond yield fell 1 basis point to 1.29%.

Foreign Exchange: The Australian dollar fell from its Friday high of around 0.7440 to an overnight low of 0.7392 – which is the lowest rate against the US dollar since 7 December 2020.

We warned on the 20th of June (in this report) that the AUD/USD was likely to face selling pressures in the short term and head towards the 70 US cent handle before recovering later this year. The recent break under support of 0.7410 leaves us comfortable with this short-term view.

In the short term, the lockdowns in NSW and Victoria and the associated economic impacts amid a slow vaccine rollout supports a lower AUD/USD.

Commodities: An agreement between Saudi Arabia and the United Arab Emirates finally occurred. It paves the way for OPEC to hike crude supply by 400,000 barrels a day each month from August,

continuing until the cartel's 5.8 million barrels a day of halted output is revived.

COVID-19: There were 105 new cases reported in the 24-hour period to 8pm last night in NSW. Victoria reported 16 new cases. The NSW government announced tighter restrictions on Saturday.

In the UK, restrictions are easing from today. Masks will no longer be required with around 68% of British adults having had both doses of a vaccine. However, new cases in the UK are at their highest in six months.

Australia: There was no major economic data published on Friday locally. The attention remains on the growing outbreak in NSW and Victoria and attempts to contain the outbreaks.

The NSW and Victorian economies account for 57% of the national economy. The longer the lockdowns need to continue in these two large states, the greater the risk that GDP will contract in this current September quarter. There is also a rising risk that the Reserve Bank (RBA) will need to delay its decision to taper its bond-buying program (i.e. quantitative easing program). Earlier this month, the RBA said it would start tapering its bond-buying program in September by cutting its bond-buying from \$5 billion a week to \$4 billion a week.

Economic activity continues to remain robust in the

rest of Australia, but NSW and Victoria collectively account for a large share of the national population and national GDP. Lockdowns and interstate border closures affect demand for goods and services. They also have other impacts that include limiting labour mobility and disrupting interstate supply chains.

Once lockdown lifts, pent-up demand helps drive up economic activity, so much will depend on how long it takes the NSW and Victorian governments to contain the outbreaks.

New Zealand: The consumer price index (CPI) rose by 1.3% in the June quarter, which is the fastest pace in a decade. It took the annual inflation rate from 1.5% in the March quarter to 3.3% in the June quarter, the highest since the June quarter of 2011 and past the Reserve Bank of New Zealand's target inflation band of 1-3%. The increase was driven by higher prices for new housing, food and petrol. But part of it was attributable to the fact that it was measured against the June quarter of 2020, a period impacted by the COVID-19 lockdown.

The very strong inflation data adds to the case that the RBNZ will need to raise the Official Cash Rate (OCR) before the end of this year. We are anticipating three rate hikes from the RBNZ later this year with the first rate hike likely to come next month.

United States: The preliminary University of Michigan's consumer sentiment index fell to 80.8 in July, from a reading of 80.8 in June. The survey suggested US consumers were feeling less optimistic about the economic outlook. Moreover, US consumers are increasingly worried about rising prices. The one-year-ahead inflation expectations sub index rose to 4.8% - the highest since 2008. And the 5-10-year inflation expectations index rose to 2.9% in July, from 2.8% in June.

The sentiment data took some shine off the retail sales release. Retail sales jumped 0.6% in June, after a fall of 1.7% in May. The outcome beat consensus expectations that were centred on a fall of 0.4%.

Today's key data and events:

NZ Performance of Services Index Jun prev 56.1 (8:30am)

UK Rightmove House Prices Jul prev -0.8% (9:01am)

EZ Construction Output May prev -2.2% (7pm)

US NAHB Housing Market Index Jul exp 82 prev 81 (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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