

Morning Report

Friday, 19 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,746	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	32,862	-0.5%	10 yr bond	98.11			-0.07	90 day BBSW	0.04	0.00
Japan Nikkei	30,217	1.0%	3 yr bond	99.69			-0.02	2 year bond	0.10	0.01
China Shanghai	3,630	0.5%	3 mth bill rate	99.94			-0.01	3 year bond	0.10	0.01
German DAX	14,776	1.2%	SPI 200	6,669.0			-43	3 year swap	0.35	0.07
UK FTSE100	6,780	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.78	0.06
Commodities (close & change)*			TWI	64.4	-	-	65.0	United States		
CRB Index	187.1	-5.5	AUD/USD	0.7798	0.7849	0.7749	0.7761	3-month T Bill	0.00	-0.01
Gold	1,736.07	-9.3	AUD/JPY	84.86	85.45	84.36	84.52	2 year bond	0.16	0.02
Copper	9,072.50	-7.0	AUD/GBP	0.5583	0.5613	0.5568	0.5571	10 year bond	1.71	0.07
Oil (WTI)	59.49	-5.1	AUD/NZD	1.0768	1.0841	1.0760	1.0832	Other (10 year yields)		
Coal (thermal)	90.00	0.5	AUD/EUR	0.6510	0.6548	0.6507	0.6514	Germany	-0.26	0.03
Coal (coking)	117.45	1.8	AUD/CNH	5.0574	5.0945	5.0483	5.0549	Japan	0.11	0.01
Iron Ore	160.18	0.3	USD Index	91.4	91.9	91.3	91.8	UK	0.88	0.05

Data as at 7:15am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Longer-term US bond yields climbed overnight and share markets sold off. The Australian dollar succumbed to selling after coming within a whisker of breaching a key resistance level.

Share Markets: US share markets ran out of steam as the bond selloff deepened and oil prices plunged. The Dow dropped 153 points (-0.5%) and the S&P 500 index fell 59 points (or -1.5%). The Nasdaq fell harder, down 409 points (or -3.0%).

Interest Rates: US government bond prices slumped and the yield curve steepened, as investors boosted bets the Federal Reserve will allow inflation to overshoot. The US 2-year yield rose 2 basis points and the US 10-year yield climbed as much as 11 basis points to a 14-month high of 1.75%. The US 30-year bond yield jumped to 2.51% for the first time since August 2019. Both yields were a tad lower at the close.

Foreign Exchange: The AUD/USD was tantalisingly close to breaching a key resistance level of 0.7850 overnight. It reached as high as 0.7849 on the back of strong jobs data yesterday before succumbing to selling. The AUD/USD subsequently fell to an overnight low of 0.7749, as commodity prices declined and the US dollar strengthened across the board.

Of note, the AUD/NZD pair rose from under 1.0800 to a two-month low of 1.0841, as weak jobs data in Australia contrasted against weak GDP data in New

Zealand.

Commodities: Base metal prices, gold and oil fell overnight.

COVID-19: The European Medicines Agency (EMA) deemed AstraZeneca's shot safe, but couldn't completely rule out a link to blood clots and will investigate further.

The Astra and the Pfizer shots help protect against the Brazilian variant, according to a University of Oxford study.

Australia: The February labour market numbers were unquestionably strong. Employment grew 88.7k and the unemployment rate fell to an 11-month low of 5.8% from 6.3% in January. The recovery in the labour market has been remarkable with employment just 0.2% below its pre-COVID-19 level.

The recovery in jobs has been particularly strong in Queensland which now has 50.4k more people in employment than it did before the pandemic was announced.

The outlook for the jobs market is favourable, but we are heading into a disruptive period with the ending of JobKeeper. We think the ending of JobKeeper will be akin to a financial slope and not a financial cliff.

There is momentum in the jobs market, as highlighted by the February jobs data and the

encouraging forward-looking indicators of employment. Positive momentum in the jobs market and the economy will help absorb some of the job losses that will arise from the end of JobKeeper.

By the end of this year, the unemployment rate should be lower and there is a good chance the strength of the labour market will surprise policymakers again.

Europe: The trade surplus shrunk modestly to €24.2 billion in January, from €27.5 billion in December.

New Zealand: GDP declined 1.0% in the December quarter of 2020 following an increase of 13.9% in the September quarter. The result was unexpected with the median consensus forecast sitting at growth of 0.2%. The New Zealand economy contracted just 0.9% on the same period the previous year.

United Kingdom: The Bank of England's Monetary Policy Committee (MPC) voted unanimously to leave key rates and policy measures unchanged. The MPC also committed to not raising rates until there is evidence of "good progress on inflation".

United States: The Philadelphia Fed business index jumped to a near 50-year high of 51.8, from an elevated 23.1 in February. There was a marked lift in all major components, including prices paid, prices received, new orders (a 50-year high of 50.9), the future outlook (61.6) and employment (30.1).

Initial jobless claims went in the wrong direction last week, puncturing expectations for a steady downward trajectory. Filings came in at 770,000 versus an upwardly revised 725,000 the week before. Consensus was for a decline to 700,000. Continuing claims also edged down less than forecast.

The leading index in February edged up 0.2%, from 0.5% growth in January.

Today's key data and events:

AU Retail Sales Prelim. Feb exp 1.0% prev 0.5% (11:30am)

JN CPI Feb y/y exp -0.4% prev -0.6% (10:30am)

UK GfK Cons Sentiment Mar exp -20 prev -23 (11:01am)

JN Bank of Japan Policy Meeting (TBA)

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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