

Morning Report

Wednesday, 19 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,066	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	34,061	-0.8%	10 yr bond	98.28		0.00		90 day BBSW	0.04	0.00
Japan Nikkei	28,407	2.1%	3 yr bond	99.74		-0.01		2 year bond	0.08	0.00
China Shanghai	3,699	0.3%	3 mth bill rate	99.96		0.00		3 year bond	0.31	0.01
German DAX	15,387	-0.1%	SPI 200	6,982.0		-79		3 year swap	0.33	0.00
UK FTSE100	7,034	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.78	0.03
Commodities (close & change)*			TWI	64.0	-	-	64.3	United States		
CRB Index	205.8	-0.2	AUD/USD	0.7771	0.7813	0.7764	0.7792	3-month T Bill	0.00	-0.01
Gold	1,869.44	2.5	AUD/JPY	84.94	85.15	84.77	84.84	2 year bond	0.15	0.00
Copper	10,391.25	32.5	AUD/GBP	0.5510	0.5504	0.5481	0.5492	10 year bond	1.64	-0.01
Oil (WTI)	65.49	-0.8	AUD/NZD	1.0736	1.0775	1.0738	1.0758	Other (10 year yields)		
Coal (thermal)	99.55	1.3	AUD/EUR	0.6394	0.6408	0.6373	0.6375	Germany	-0.10	0.01
Coal (coking)	118.17	-0.2	AUD/CNH	5.0086	5.0203	4.9984	5.0021	Japan	0.09	0.00
Iron Ore	208.10	-5.9	USD Index	90.3	90.2	89.7	89.8	UK	0.87	0.00

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: US equities and the US dollar index continued to decline while bond yields were range bound. Crude oil whipsawed alongside conflicting reports on progress toward an Iran nuclear deal.

Share Markets: US share markets reversed course and fell for a second day as an early tech rally ran out of steam and energy shares dropped. The Dow Jones fell 267 points (or -0.8%), the S&P 500 index dropped 35 points (or -0.9%) and the Nasdaq declined 75 points (or -0.6%).

Interest Rates: US 2-year treasury yields closed the overnight trading session unchanged at 0.15%, while the 10-year yield dropped 1 basis point to 1.64% after trading in a range of 1.63% and 1.66%.

Foreign Exchange: The US dollar index is down 0.5% on the day, underperforming all the majors. EUR/USD rose from 1.2160 to a three-month high of 1.2234 after GDP in the March quarter met market expectations. The Aussie dollar rose from 0.7785 to 0.7813 against the US dollar and then ranged sideways.

Bitcoin and other cryptocurrencies slumped after the People's Bank of China reiterated that digital tokens cannot be used as a form of payment. Bitcoin hit its lowest level since early February. And yet, Long Bitcoin is the most crowded trade in the world, the latest Bank of America poll of fund managers shows. It isn't the first time Bitcoin topped the list. It was at the peak in January, just

before it went higher. It also topped the charts in 2017, the last time crypto went frantic.

Commodities: Crude was whipsawed by conflicting reports on progress toward an Iran nuclear deal. Futures dropped after a Russian envoy in Vienna said significant progress has been made in efforts to broker an agreement between Tehran and Washington. However, the same diplomat, Mikhail Ulyanov, subsequently took to Twitter to play down reports, saying "unresolved issues still remain."

COVID-19: US Treasury Secretary Janet Yellen said the US is committed to helping African countries with the pandemic.

UK's Prime Minister Boris Johnson is sticking with his reopening schedule, while "looking very carefully" at data on the India variant. The UK government will approve J&J's one-shot vaccine imminently.

Combining doses of vaccines from AstraZeneca and Pfizer-BioNTech is safe and generates high levels of immunity, according to a study by Spain's Instituto de Salud Carlos III.

Australia: The Reserve Bank (RBA) Board met on 4 May and left policy settings unchanged. The minutes for the meeting were released yesterday, although they did not contain a lot of new information.

At this meeting, the Board received an updated set of forecasts, which showed that the economy has

bounced back faster than expected. The RBA is now forecasting GDP growth to be 4.75% over 2021, well above trend and up from 3.5% previously. The unemployment rate is expected to fall to 5.0% by the end of the year, down from its current level of 5.6%, and well below the previous forecast of 6.0%.

Despite the considerable improvement in the economic outlook, there was not a material shift in the RBA's forward guidance.

There were subtle shifts in communication reflecting that the risk of a cash rate hike before 2024 has increased slightly, alongside the faster-than-expected economic recovery. However, our central expectation is still that the RBA will not hike the cash rate before 2024.

The Board will discuss whether to extend yield curve control and quantitative easing at its July meeting. Our view is that both policies will be extended.

Europe: The Eurozone economy contracted by 0.6% in the March quarter and shrunk by 1.8% in the year to the March quarter. Both outcomes were in line with median expectations.

The labour market deteriorated in the March quarter. Employment fell 0.3% in this period and the annual pace declined by 2.1%.

Japan: Japan's GDP contracted by 1.3% in Q1, according to preliminary estimates. The annualised pace of decline in the period was 5.1%. With the resurgent COVID-19 infections, the government had imposed a state of emergency and tighter restrictions between January 8 and March 21. Such restrictions put a brake on personal spending, hurting economic activity.

United Kingdom: The unemployment rate fell to 4.8% in the three months to March, from 4.9% in February. The latest figures show the labour market continues to recover with the unemployment rate dropping for four straight months. But employment remains 1.4% below pre-pandemic levels and unemployment 0.8% above pre-pandemic levels.

United States: Housing starts declined 9.5% in April after jumping 19.4% in March. The fall was larger than expected and suggests that supply-chain constraints and rising material costs are holding builders back. However, housing starts still remain elevated alongside strong demand for residential real estate, driven by low borrowing costs.

Today's key data and events:

NZ PPI Q1 prev 0.4% (8:45am)

AU WBC-MI Consumer Sentiment May prev 118.8 (10:30am)

AU Wage Price Index Q1 (11:30am)

q/q exp 0.6% prev 0.6%

y/y exp 1.5% prev 1.4%

JN Industrial Production Mar Final (2:30pm)

UK CPI exp 0.6% Apr prev 0.3% (4:00pm)

US FOMC Minutes (4am)

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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