

# Morning Report

Monday, 1 February 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,607	-0.6%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	29,983	-2.0%	10 yr bond	98.83				90 day BBSW	0.01	0.00
Japan Nikkei	27,663	-1.9%	3 yr bond	99.82				2 year bond	0.11	0.00
China Shanghai	3,651	-0.6%	3 mth bill rate	99.99				3 year bond	0.11	0.00
German DAX	13,433	-1.7%	SPI 200	6,507.0				3 year swap	0.16	0.00
UK FTSE100	6,407	-1.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.13	0.05
<b>Commodities (close &amp; change)*</b>			TWI	62.9	-	-	63.0	<b>United States</b>		
CRB Index	174.2	-0.1	AUD/USD	0.7677	0.7704	0.7621	0.7625	3-month T Bill	0.05	-0.01
Gold	1,847.65	4.5	AUD/JPY	80.04	80.65	79.81	79.88	2 year bond	0.11	-0.01
Copper	7,862.50	-19.6	AUD/GBP	0.5594	0.5607	0.5555	0.5563	10 year bond	1.07	0.02
Oil (WTI)	52.20	-0.1	AUD/NZD	1.0701	1.0715	1.0634	1.0638	<b>Other (10 year yields)</b>		
Coal (thermal)	87.20	-1.3	AUD/EUR	0.6333	0.6342	0.6275	0.6277	Germany	-0.52	0.02
Coal (coking)	158.50	1.9	AUD/CNH	4.9711	4.9781	4.9173	4.9197	Japan	0.05	0.01
Iron Ore	155.59	1.7	USD Index	90.6	90.8	90.4	90.6	UK	0.33	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:** Volatility in asset markets, mostly share markets, was very high on Friday. The risk-averse mood caused a widespread sell off in global equity markets on Friday.

**Share Markets:** Global equities were a sea of red on Friday, as brokers eased restrictions on stocks which had been subject to short squeezes recently. In the US, the S&P 500 index lost 73 points (or -1.9%) on Friday and lost 1.9% for the week, which is its biggest weekly loss since October. The Dow lost 621 points (or -2.0%) and the Nasdaq fell 266 points (or -2.0%).

In Europe, the Euro Stoxx 50 index shed 76 points (or -2.1%).

A lot of attention remained on GameStop and other most-heavily shorted stocks. The share price of GameStop on Friday surged nearly 70% and for the week closed 400% higher.

**Interest Rates:** US bond yields were mixed on Friday with the US 2-year bond yield down 1 basis point and the 10-year yield rising 2 basis points.

**Foreign Exchange:** The risk-averse mood hurt demand for the Australian dollar. After rising to a Friday overnight high of USD0.7704, the AUD sold off through the New York session to hit an overnight low of 0.7625. The AUD/USD is now near the low of its month-long trading range of 0.7520-0.7820.

**Commodities:** The Reddit-inspired frenzy that roiled commodities markets last week may be spilling over into physical bars and coins for silver and gold. Retail sites in the US, including Money Metals and SD Bullion, reported being overwhelmed with physical demand for the metals yesterday.

OPEC and its partners estimate they implemented 99% of their agreed oil-supply curbs in January. The 23-nation alliance aimed to withhold 7.2 million barrels a day of crude from the market last month, which is equivalent to about 7% of global supplies.

**Australia:** Credit to the private sector grew by 0.3% in December, lifting annual growth to 1.8%. Whilst credit growth remained soft, it was the strongest monthly expansion since March.

Credit growth is being led by housing. Housing demand and housing lending are being underpinned by very low interest rates. Housing credit lifted 0.4% in December and is up a staggering 47% since May, which is the trough associated with the national lockdown.

Business credit advanced by 0.2% after seven consecutive monthly declines.

Producer prices lifted by 0.4% in the December quarter, but the annual rate still shrank at a pace of 0.1%. Wholesale inflation remains muted.

**China:** The manufacturing purchasing managers' index (PMI) dipped to 51.3 in January, from 51.9 in

December, but remained comfortably in expansion territory. A reading above 50 indicates an expansion in activity. However, the outcome missed consensus expectations.

The slight decrease is likely due to the Spring Festival, which is the traditional off season for China's manufacturing industry. The slight decline might also be due to the recent resurgence in COVID-19 cases in China, which has temporarily affected production and operations.

The non-manufacturing and composite PMIs also showed a slower expansion, decreasing by 3.3 and 2.3 points, respectively, to 52.4 and 52.8 in January.

**New Zealand:** Consumer confidence lifted 1.6% to 113.8 in January. The successful control of COVID-19 in New Zealand has contributed to improving sentiment.

**United Kingdom:** The Lloyds business barometer deteriorated to -7 in January, from -4 in December. The survey suggests the outlook for business performance and economic expectations have softened.

**United States:** The employment cost index rose 0.7% in the December quarter and lifted 2.5% over the year to the December quarter.

Personal income increased 0.6% in December. However, personal spending contracted 0.2% in the same month as many provisions of the CARES Act continued to wind down before the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act was enacted on 27 December 2020. Also, new restrictions and closures across parts of the US in December squeezed spending. Real personal spending fell 0.6% in the month.

The core personal consumption expenditure (PCE) deflator, which the Federal Reserve eyes carefully, rose 0.3% in December. Annual growth of the PCE deflator edged up from 1.4% in November to 1.5% in December. The result highlights the current muted nature of inflation pressures in the US.

The MNI Chicago PMI expanded 5.1 points in January to 63.8. It is the highest level since July 2018.

The final measure of consumer sentiment published by the University of Michigan fell slightly from the preliminary estimate to 79.0 and is down sharply from December's outcome of 80.7. Sentiment remains fragile in the US due to the high number of COVID-19 cases.

A group of 10 Republican senators wrote to President Joe Biden with an alternative stimulus

proposal that they say would gain bipartisan support. A Republican aide said the proposal is expected to be in the \$500-\$600 billion range, versus Biden's plan for a \$1.9 trillion stimulus that GOP lawmakers have rejected. Brian Deese, the director of the White House National Economic Council, said the administration has received that plan and will be reviewing it.

#### Today's key data and events:

AU AiG Performance of Mfg Index Jan (8:30am)  
 AU Markit PMI Mfg Index Jan Final prev 57.2 (9am)  
 AU CoreLogic House Prices Jan prev 0.9% (10am)  
 AU MI Inflation Gauge Jan prev 0.5% (11am)  
 AU Job Ads Jan prev 9.2% (11:30am)  
 AU Housing Finance Value Dec (11:30am)  
 Total exp 7.5% prev 5.6%  
 Investor exp 5.0% prev 6.0%  
 Owner Occupier exp 8.0% prev 5.5%  
 CH Caixin PMI Mfg Jan exp 52.6 prev 53.0 (12:45pm)  
 EZ Markit Mfg PMI Jan Final exp 54.7 prev 54.7 (8pm)  
 UK Consumer Credit Dec y/y prev -6.7% (8:30pm)  
 EZ Unemployment Rate Dec exp 8.3% prev 8.3% (9pm)  
 UK Markit Mfg PMI Jan Final exp 52.9 prev 52.9 (9:30pm)  
 US Markit Mfg PMI Jan Final exp 59.1 prev 59.1 (1:45am)  
 US Construction Spending Dec exp 0.8% prev 0.9% (2am)  
 US ISM Index Jan exp 60.0 prev 60.5 (2am)  
 US Federal Reserve's Kashkari Speaks (4am)  
 US Federal Reserve's Kaplan Speaks (5am)  
 US Federal Reserve's Bostic Speaks (6am)

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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