

Morning Report

Monday, 1 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,673	-2.4%			Last	Overnight Chg		Australia		
US Dow Jones	30,932	-1.5%	10 yr bond	98.28		0.19		90 day BBSW	0.03	0.01
Japan Nikkei	28,966	-4.0%	3 yr bond	99.67		0.03		2 year bond	0.12	-0.01
China Shanghai	3,678	-2.1%	3 mth bill rate	99.95		-0.01		3 year bond	0.12	-0.01
German DAX	13,786	-0.7%	SPI 200	6,658.0		29		3 year swap	0.35	-0.02
UK FTSE100	6,483	-2.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.92	0.18
Commodities (close & change)*			TWI	65.4	-	-	64.5	United States		
CRB Index	190.4	-4.2	AUD/USD	0.7871	0.7883	0.7693	0.7706	3-month T Bill	0.03	-0.01
Gold	1,734.04	-36.5	AUD/JPY	83.63	83.83	81.99	82.13	2 year bond	0.13	-0.05
Copper	9,093.25	-335.0	AUD/GBP	0.5618	0.5629	0.5521	0.5533	10 year bond	1.40	-0.12
Oil (WTI)	61.50	-2.0	AUD/NZD	1.0677	1.0717	1.0640	1.0653	Other (10 year yields)		
Coal (thermal)	81.45	1.5	AUD/EUR	0.6468	0.6474	0.6373	0.6383	Germany	-0.26	-0.03
Coal (coking)	139.86	0.9	AUD/CNH	5.1071	5.1176	4.9886	4.9935	Japan	0.16	0.01
Iron Ore	173.34	2.2	USD Index	90.3	91.0	90.1	90.9	UK	0.82	0.04

Data as at 6pm on Sunday 28 February. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Global share markets remained a sea of red on Friday, but there was a reprieve in the sell off in government bonds.

Share Markets: The sell off in global share markets continued Friday, despite a reprieve in the bond market rout. The Dow fell 470 points (or -1.5%) and the S&P 500 dropped 18 points (or -0.5%). However, the Nasdaq managed to buck the trend and register a gain of 73 points (or +0.6%).

Interest Rates: Bond prices recovered some ground on Friday after a severe sell off in the previous session. The US 10-year bond yield fell 12 basis points on Friday after gaining 14 basis points and hitting a one-year high of 1.52% on Thursday. The US 2-year bond yield fell 5 basis points, fully undoing the 5-point gain from Thursday.

Central bankers tried to soothe panicked investors. European Central Bank (ECB) official Yannis Stournaras suggested the ECB would increase bond purchases to stem rising borrowing costs.

In Australia, the Reserve Bank is buying bonds to defend its 3-year government bond yield target of around 0.10%. On Friday, the 3-year government bond yield closed the session at 0.117%. The 3-year swap rate closed 2 basis points lower to 0.35% on Friday, but this is 12 basis points higher than a week ago and 20 basis points higher on two weeks ago.

Foreign Exchange: The Australian dollar remains

under downward pressure. After hitting a three-year high of 0.8007 against the US dollar on 25 February, the AUD has been subject to a sharp sell off. The AUD hit a low of USD0.7693 in Friday night's session. The AUD has now lost around 3 US cents in just 36 hours. The velocity of this move has no doubt caught many investors by surprise and the AUD's downward leg does not seem over yet. In terms of the technical picture, the major support level of 0.7445 is critical for the AUD. A close below this support level over the next few weeks could spell a more bearish outlook for the AUD/USD.

Commodities: Gold posted its worst monthly performance since late 2016. It fell 6.6% in February and 8.7% since the end of 2020, as commodity traders focus on an economic recovery and higher Treasury yields.

Australia: Credit to the private sector ticked up in January, growing 0.2%. In annual terms, growth is still muted at 1.7%.

Business credit growth remained anaemic, declining 0.1% in January. Over the year, business credit grew at 0.5%, the slowest annual growth since 2011.

Housing credit has picked up a little since late 2020, growing 0.4% in January and 3.6% in annual terms. The increase has been driven by owner-occupiers.

The Australian Bureau of Statistics (ABS) released its survey measuring the impact of COVID-19 on

businesses on Friday. The survey was conducted over February 10-17. The survey suggests that business conditions have improved markedly since the height of the COVID crisis, although challenges remain. Revenues have been resilient over the last few months, despite tapering fiscal support and a handful of short-lived COVID-19 outbreaks. In February 28% of businesses reported a decline in revenue, compared with 38% in September. COVID-19 restrictions were the most common factor significantly impacting businesses in February (41%). Reduced cash flow also remains a challenge (30%). Over the past three months, 14% of businesses sought additional funds and in February, 41% of businesses did not have enough cash on hand to cover three months of business operations, up from 29% in October.

Data from the Australian Taxation Office (ATO) showed a further fall in the number of workers on JobKeeper from 1.5 million in December to 960,000 in January. Around 2.7 million workers have now left JobKeeper since September last year.

China: Several purchasing managers' indexes (PMIs) were published on Sunday. Each of these PMIs deteriorated in February and disappointed market expectations. But the indexes importantly remained above the critical level of 50, suggesting ongoing expansion in activity is likely. The manufacturing PMI eased 0.7 points to 50.6, which is the lowest level since May. The non-manufacturing PMI fell 1 point to 51.4 and the composite PMI declined 1.2 points to 51.6.

United Kingdom: The Lloyds business barometer improved to 2 in February, from -7 in January.

New Zealand: Consumer confidence eased slightly in February to 113.1, from 113.8 in January.

The trade balance turned from a surplus of \$69 million in December to a deficit of \$626 million in January.

United States: President Biden scored his first legislative win as the House of Representatives passed his \$1.9 trillion COVID-19 relief package early Saturday. However, the Democrats face challenges to their hopes of using the bill to raise the minimum wage. Democrats who control the chamber passed the measure and sent it to the Senate, where Democrats planned a legislative manoeuvre to pass it without the support of Republicans. The American Rescue Plan would pay for vaccines and medical supplies and send a new round of emergency financial aid to households, small businesses and state and local governments.

The bill's big-ticket items include \$1,400 direct payments to individuals, a \$400 per week federal unemployment benefit through August 29, and help for those in difficulty paying rents and residential mortgages.

Personal income surged 10.0% in January, driven by the \$600 stimulus cheques distributed during the month to American households. Personal spending rose 2.4% and a key inflation gauge, the personal consumption expenditure (PCE) deflator accelerated at an annual rate of 1.5% in January, from 1.4% in December.

The final reading for consumer sentiment improved modestly from the preliminary reading, rising to 76.8, from 76.2. It is still lower than January's reading of 79.0 and remains well under the 100 level that divides the optimists from the pessimists.

World: The Group of 20 finance ministers and central bankers acknowledged in their virtual summit that inflation expectations are on the rise, but determined price increases will not be persistent, according to Bank of Italy Governor Ignazio Visco. Visco also said exiting support measures was not discussed.

Today's key data and events:

AiG Performance of Mfg Index Feb prev 55.3 (8:30am)
 CoreLogic Dwelling Prices Feb exp 2.0% prev 0.7% (10:00am)
 Melb. Institute Inflation Gauge Feb y/y prev 1.5% (11:00am)
 ANZ Job Advertisements Feb prev 2.3% (11:30am)
 Business Indicators Q4 (11:30am)
 Company Profits exp -4.0% prev 3.2%
 Inventories exp 0.2% prev -0.5%
 Housing Finance Jan (11:30am)
 Total exp -2.0% prev 8.6%
 Owner-occupier exp -4.0% prev 8.7%
 Investor exp 4.5% prev 8.2%
 CH Caixin PMI Mfg Feb exp 51.4 prev 51.5 (12:45pm)
 EZ Markit PMI Mfg Feb Final exp 57.7 prev 57.7 (8pm)
 US Markit PMI Mfg Feb Final exp 58.5 prev 58.5 (1:45am)
 US Construction Spending Jan exp 0.7% prev 1.0% (2am)
 US ISM Index Feb exp 58.6 prev 58.7 (2am)

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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