

# Morning Report

Thursday, 20 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,932	-1.9%			Last	Overnight Chg		Australia		
US Dow Jones	33,896	-0.5%	10 yr bond	98.27		-0.02		90 day BBSW	0.04	0.00
Japan Nikkei	28,044	-1.3%	3 yr bond	99.74		0.00		2 year bond	0.07	-0.01
China Shanghai	3,680	-0.5%	3 mth bill rate	99.96		0.00		3 year bond	0.32	0.01
German DAX	15,114	-1.8%	SPI 200	6,932.0		4		3 year swap	0.34	0.00
UK FTSE100	6,950	-1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.77	-0.01
Commodities (close & change)*			TWI	64.3	-	-	64.3	United States		
CRB Index	201.9	-3.9	AUD/USD	0.7792	0.7797	0.7711	0.7724	3-month T Bill	0.00	-0.01
Gold	1,869.62	0.2	AUD/JPY	84.84	84.96	84.04	84.35	2 year bond	0.16	0.01
Copper	9,992.50	-398.8	AUD/GBP	0.5492	0.5495	0.5464	0.5472	10 year bond	1.67	0.03
Oil (WTI)	63.36	-2.1	AUD/NZD	1.0758	1.0792	1.0752	1.0771	Other (10 year yields)		
Coal (thermal)	97.25	-0.3	AUD/EUR	0.6375	0.6379	0.6331	0.6343	Germany	-0.11	-0.01
Coal (coking)	118.33	0.2	AUD/CNH	5.0021	5.0097	4.9655	4.9735	Japan	0.08	-0.01
Iron Ore	197.25	-9.0	USD Index	89.8	90.3	89.7	90.2	UK	0.85	-0.02

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:** Financial markets were shaken by a plunge in cryptocurrencies. This was then followed by the release of minutes from the last Federal Reserve Open Market Committee (FOMC) meeting that flagged some members expect to discuss the tapering of bond purchases “at some point”.

**Share Markets:** US share markets whipsawed overnight before ending lower. All three major indexes dropped early, then were rattled again when the US Federal Reserve minutes signalled increasing willingness to look at tapering asset purchases. The Dow fell 164 points (or -0.5%), the S&P 500 index dropped 12 points (or -0.3%) and the Nasdaq eased 4 points (or unchanged in daily percentage terms).

**Interest Rates:** The FOMC discussion around a possible tapering at some point led to a rise in US bond yields. The US 2-year yield jumped from 2 basis points to 0.16%. The US 10-year yield rose from a low of 1.62% to as high as 1.69% but settled at the close at 1.67%.

**Foreign Exchange:** Demand for the US dollar shot up after the FOMC minutes. The US dollar index rose from an overnight low of 89.8 to a high of 90.3. The Australian dollar sold off against the US dollar, led by moves in the US dollar. However, the Australian dollar remained in recent trading ranges. Direction in Asian trade for the AUD will be determined by the jobs data out later this morning.

It will be the first official data after the conclusion of JobKeeper in March.

Overnight, there were also extreme moves in the price of Bitcoin and other cryptocurrencies.

**Commodities:** Most commodity prices fell overnight, driven by the shift in the FOMC stance around tapering of bond purchases.

**Australia:** The monthly measure of consumer sentiment fell 4.8% to 113.1 in May, from 118.8 in April, according to the Melbourne Institute. The index is now at its second highest level since April 2010 and follows an 11% rise over the previous three months. The fall may represent some disappointment in the Federal budget, as the budget was announced at the half-way point of the survey period.

All five subcomponents of the index recorded declines in the latest month as well. The most positive aspect of this month's sentiment update is around jobs. Unemployment expectations recorded a sharp decline of 15.3%, as more respondents of the survey expect the unemployment rate to decline at the end of the year. At 100.2, the May index is at a ten-year low, suggesting that the lingering concerns around the end of JobKeeper have eased.

Wages growth picked up modestly in the March quarter. But that is coming off a record low in the

December quarter. There is still a lot of spare capacity in the labour market and so wages growth is still soggy. Wages grew 0.6% in the March quarter to take annual growth to 1.5%, up from 1.4% in the previous quarter. In quarterly terms, private sector wages picked up 0.6% while public-sector wages grew 0.4%. In year-ended terms, public sector wages growth slowed to 1.5%, a new record low. Private sector wages grew 1.4% over the year.

There have been reports of labour shortages in pockets of the economy, particularly for low-skill sectors, like hospitality, which rely on foreign workers. Inertia in wage-setting practices mean it could be slow for such pressures to flow through to the data.

The Reserve Bank has suggested annual wages growth of 3% or more is needed to get inflation sustainably back in their inflation target band. We are still a long way from achieving this.

**New Zealand:** The producer price index rose by 1.2% in the March quarter, from 0.5% in the previous quarter. The most significant contribution to the index came from electricity and gas, which was up 17.4%.

**United Kingdom:** Consumer prices rose as expected by 0.6% in April, following a 0.3% increase in March. Headline consumer prices were up 1.5% over the year and the core was up 1.3% over the same period.

**United States:** US Federal Reserve officials were cautiously optimistic about the US economic recovery at the central bank's April meeting. Some members of the FOMC signalled they'd be open to discussing scaling back the central bank's massive bond purchases "at some point". This was a surprise, as recent comments from US FOMC Chairman Jerome Powell suggested they were not even thinking about tapering. However, the FOMC minutes also said "it would likely be some time" until substantial further progress is made toward the central bank's dual employment and price stability goals.

Officials held interest rates near zero at the meeting and pledged to continue buying \$80 billion in Treasuries and \$40 billion in mortgage-backed securities every month until "substantial further progress" had been made on their employment and inflation goals.

FOMC member Randal Quarles told a House panel that he expects a temporary increase in prices as the economy reopens, but that the Fed "has the tools to address inflationary concerns."

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

AU Labour Force Apr (11:30 am)

Employment Change Apr exp 10k prev 70.7k

Participation Rate Apr exp 66.3% prev 66.3%

Unemployment Rate Apr exp 5.6% prev 5.6%

US Philadelphia Fed Index May exp 41.0 prev 50.2 (10:30pm)

US Leading Index exp 1.3% Apr prev 1.3% (12:00am)

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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