

Morning Report

Monday, 22 March 2021

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 6,708 | -0.6% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 32,628 | -0.7% | 10 yr bond | 98.12 | | | -0.04 | 90 day BBSW | 0.03 | -0.01 |
| Japan Nikkei | 29,792 | -1.4% | 3 yr bond | 99.71 | | | 0.00 | 2 year bond | 0.09 | 0.00 |
| China Shanghai | 3,569 | -1.7% | 3 mth bill rate | 99.95 | | | 0.00 | 3 year bond | 0.10 | 0.01 |
| German DAX | 14,621 | -1.0% | SPI 200 | 6,661.0 | | | -15 | 3 year swap | 0.31 | -0.03 |
| UK FTSE100 | 6,709 | -1.0% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 1.80 | 0.02 |
| Commodities (close & change)* | | | TWI | 65.0 | - | - | 64.5 | United States | | |
| CRB Index | 188.8 | 1.6 | AUD/USD | 0.7761 | 0.7774 | 0.7691 | 0.7715 | 3-month T Bill | 0.00 | -0.01 |
| Gold | 1,745.23 | 8.8 | AUD/JPY | 84.52 | 84.63 | 83.59 | 83.77 | 2 year bond | 0.15 | 0.00 |
| Copper | 9,076.25 | 3.8 | AUD/GBP | 0.5571 | 0.5597 | 0.5557 | 0.5571 | 10 year bond | 1.72 | 0.01 |
| Oil (WTI) | 61.42 | 1.4 | AUD/NZD | 1.0832 | 1.0845 | 1.0791 | 1.0805 | Other (10 year yields) | | |
| Coal (thermal) | 93.80 | 3.8 | AUD/EUR | 0.6514 | 0.6520 | 0.6489 | 0.6501 | Germany | -0.29 | -0.03 |
| Coal (coking) | 111.00 | -6.5 | AUD/CNH | 5.0549 | 5.0565 | 5.0061 | 5.0200 | Japan | 0.11 | 0.00 |
| Iron Ore | 154.21 | -6.0 | USD Index | 91.8 | 92.2 | 91.7 | 91.9 | UK | 0.84 | -0.04 |

Data as at 7:30am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Market sentiment was influenced by the Federal Reserve's statement on Friday around the favourable treatment for bank holders of Treasuries. The Fed said the temporary rule would expire as planned on 31 March. The statement contributed to a rise in bond yields and a fall in equities.

Share Markets: US share markets fell on Friday. The Dow lost 234 points (or -0.7%) and the S&P ended down 2 points (or -0.1%). However, the Nasdaq bucked the trend and ended 99 points higher (or +0.8%).

Interest Rates: US bond yields rose after the US Federal Reserve said on Friday that the 31 March expiry of rules linked to bank holdings of Treasury bonds will go ahead as planned. The US 10-year yield rose to 1.746% immediately after this statement, just shy of the 1.7% level – the highest since January 2020. The US 10-year yield ended the session at 1.72%, which was 1 basis point higher on the previous day's close. The US 2-year yield ended the session unchanged at 0.15%.

Foreign Exchange: The Australian dollar traded lower on Friday night but stuck to a narrow range against the US dollar of 0.7691-0.7774. The Aussie dollar is under fresh selling pressures in early Asian trade this morning.

In emerging markets, the Turkish lira in early trade this morning has plunged almost 17% against the

US dollar after Turkey's President unexpectedly replaced the central bank governor. This will be Turkey's fourth central bank Governor in less than two years. It comes on the heels of a 200-basis-points rate hike on Thursday - double what markets had expected.

Commodities: Commodity prices were mostly firmer.

COVID-19: The UK has warned the EU its relations globally will be damaged if it reneges on dosage contracts. The EU said it's unable to donate shots to poor nations for the time being. Germany is considering an extension of lockdown restrictions into April after infections rose beyond a key level.

Australia: Huge parts of western Sydney and the mid-north coast of New South Wales are inundated with floodwaters. Evacuations have been ordered. Two weather systems are expected to collide over the state tonight.

Retail sales dropped 1.1% in February and the result in January was revised down from growth of 0.5% to growth of 0.3%. Mini lockdowns in individual states are likely to have contributed to the weaker result. However, the underlying momentum of retailing remains solid. Furthermore, the recent jobs gains, upturn in house prices and elevated household savings ratio suggests retailing can continue to grow at a good rate in coming months.

China: The People's Bank of China Governor Yi Gang said China still has room to pump liquidity into the economy while keeping its leverage ratio stable. He added that that monetary policy is currently within normal range with ample tools to moderate interest rates.

Japan: The Bank of Japan (BoJ) published the results of a long-awaited review on Friday. The BoJ scrapped its pledge to buy an average of ¥6 trillion a year in equities as policymakers edged away from aggressive monetary stimulus in favour of a more sustainable policy. The BoJ will continue to buy equities up to a maximum of ¥12 trillion per year. But under the new policy the BoJ will intervene when the market falls rather than steadily increasing its holdings.

The overnight cash rate was held at 0.10%. The BoJ will continue to peg 10-year bond yields at "around zero" but they will be allowed to fluctuate more widely at +/- 0.25%, instead of the previous +/-0.20%.

The BoJ also launched a scheme to pay banks bonus interest on their reserve balances. This scheme helps bank profits, so they do not suffer from negative interest rates. The move suggests the BoJ could cut interest rates further if it needs to respond to a deterioration in the economy.

United States: The US Federal Reserve said on Friday in a statement that the expiration of rules linked to bank holdings of Treasury bonds will go ahead as planned. The Federal Reserve's Supplementary Lending Ration (SLR) rule, put in place last year to stabilise bond markets during the peak of the pandemic-induced volatility, will expire on March 31. The rule allowed banks to stock up on Treasury bonds without the need to set aside excess capital to compensate for them.

US Federal Reserve Chair said in an op-ed that he plans to support the US economy "for as long as it takes", but also said the outlook has been brightening.

US Federal Reserve Chair, Jerome Powell, will be speaking later today at the virtual Bank of International Settlements Innovation Summit.

Also, Jerome Powell and US Treasury Secretary, Janet Yellen, testify mid week on US stimulus and pandemic policies.

Today's key data and events:

EZ Current Account Balance Jan prev €36.7bn (8pm)

US Chicago Fed Nat Activity Index Feb exp 0.71 prev 0.66 (11:30pm)

US Existing Home Sales Feb exp -2.9% prev 0.6% (1am)

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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