

Morning Report

Wednesday, 25 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,503	0.2%	Last		Overnight Chg			Australia			
US Dow Jones	35,366	0.1%	10 yr bond		98.85	-0.02		90 day BBSW	0.01	0.00	
Japan Nikkei	27,732	0.9%	3 yr bond		99.74	-0.01		2 year bond	0.02	0.00	
China Shanghai	3,683	1.1%	3 mth bill rate		99.99	0.00		3 year bond	0.22	0.03	
German DAX	15,906	0.3%	SPI 200		7,453.0	18		3 year swap	0.41	0.00	
UK FTSE100	7,126	0.2%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	1.15	0.05
Commodities (close & change)*			TWI		60.2	-	-	60.7	United States		
CRB Index	215.1	3.2	AUD/USD		0.7210	0.7271	0.7201	0.7256	3-month T Bill	0.04	-0.01
Gold	1,802.90	-2.5	AUD/JPY		79.08	79.75	79.03	79.59	2 year bond	0.22	0.00
Copper	9,290.95	250.0	AUD/GBP		0.5255	0.5295	0.5250	0.5286	10 year bond	1.29	0.04
Oil (WTI)	67.64	0.1	AUD/NZD		1.0461	1.0472	1.0410	1.0439	Other (10 year yields)		
Coal (thermal)	159.20	2.1	AUD/EUR		0.6139	0.6183	0.6134	0.6172	Germany	-0.48	0.00
Coal (coking)	238.83	1.2	AUD/CNH		4.6704	4.7013	4.6671	4.6945	Japan	0.02	0.00
Iron Ore	152.00	3.9	USD Index		93.0	93.1	92.8	92.9	UK	0.54	0.00

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: The risk appetites of investors improved overnight, despite some lingering concerns over the spread of Delta and softer-than-expected US economic data. Key US share market indexes hit all-time highs and the US dollar softened, helping the AUD/USD rise to a 1-week high.

Share Markets: US share markets extended their record run overnight, as strong earnings reports outweighed concerns about the pandemic. The Dow added 31 points (or +0.1%), the S&P 500 index lifted 7 points (or +0.2%) and the Nasdaq increased 77 points (or +0.5%). Both the S&P 500 and Nasdaq indexes hit all-time highs.

Interest Rates: US bond yields lifted across most of the yield curve, especially yields of longer-dated maturities. The US 10-year rose 4 basis points to close at 1.29%, which is still a long way from the 2021 peak of 1.74% struck in March.

Foreign Exchange: The US dollar index depreciated overnight, as sentiment towards risk returned and spurred demand away from the US dollar. The AUD strengthened against the US dollar as a result.

The Australian dollar hit a 9½-month low of 0.7106 on August 20. It has lifted off this level on August 20, underpinned by a lift in risk appetites. It has continued to recover overnight to rise to a 1-week high of 0.7271.

In other FX developments, the AUD/NZD initially

from 1.0460 to a 16-month low of 1.0410 – before recovering to 1.0450. It is currently trading around the 1.0440 handle.

Commodities: Commodities rallied with oil posting a strong gain overnight.

COVID-19: NSW recorded 753 new cases yesterday, which is down from the 818 recorded on the previous day. Elsewhere, the ACT recorded 30 cases, Victoria recorded 50 cases and Queensland recorded 2 cases.

NSW has now hit its vaccination target of 6 million jabs. The NSW Premier said she will be making an announcement later this week on reduced restrictions for fully vaccinated residents.

Meanwhile, New Zealand recorded 41 new cases yesterday, bringing the total outbreak to 148.

In COVID-19 vaccine news overnight, the effectiveness of shots in front-line workers dropped to 66% from 91% after delta became dominant, according to a US Centre for Disease Control and Prevention (CDC) report. Anthony Fauci, the Chief Medical Advisor to the US President, said a third COVID-19 inoculation may lead to lasting protection. He expects Moderna and J&J's shots to get full US Food and Drug Administration approval relatively soon.

Australia: The Roy Morgan weekly consumer confidence index rose 0.5% to 101.6 in the week ending 22 August. The increase was driven by

strong improvements in SA, WA and QLD.

The Federal government has announced the establishment of the Australian Agriculture visa for foreign workers from South-East Asian countries. These workers will be offered a pathway to permanent residency and settlement in regional areas and will work on Australian farms and other agriculture sectors - including meat processing, fishery and forestry. It should help with labour shortages in the farming sector. The visa will be in place by the end of September.

Eurozone: The final German GDP reading for Q2 showed a slight rise to 1.6% in the quarter, from the preliminary result of 1.5%. A lift in government spending offset lower private consumption and investment.

New Zealand: Retail sales volumes rose 3.3% in the June quarter, above consensus expectations of a 2.5% increase. This result follows a revised 2.8% increase in the March quarter. Spending on big ticket items and durable goods was particularly strong, including electrical goods, homewares and vehicles. Spending in the hospitality sector also increased to be above pre-pandemic levels.

United States: Sales of new US single-family homes increased 1.0% in July after three straight monthly declines. However, housing market momentum is slowing as surging housing prices amid tight supply sideline some first-time buyers from the market. The rise in new home sales was below market expectations that centred on a gain of 3.3%. On a year earlier, new home sales are down 27.2%.

The Federal Reserve Bank of Richmond's manufacturing index fell to 9 in August from 27 in July. This print missed the market expectation of 25 by a wide margin. The survey reported that several manufacturers reported deteriorating local business conditions. Also, survey contacts noted that lead times continued to rise and inventories remained low. Notably the report cites "many firms increased employment and wages in August, as the wage index hit a record high. Firms struggled to find workers with the necessary skills, and they expected these trends to continue in the coming months."

Today's key data and events:

NZ Trade Balance Jul prev \$261mn (8:45am)

AU Constr. Work Done Q2 exp 0.9% prev 2.4% (11:30am)

EZ IFO Busin. Clim. Index Aug exp 100.4 prev 100.8 (6pm)

US Durable Goods Orders Jul Prel. exp -0.3% prev 0.9% (10:30pm)

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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