

# Morning Report

Thursday, 25 February 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,778	-0.9%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	31,962	1.3%	10 yr bond	98.32				90 day BBSW	0.01	0.00
Japan Nikkei	29,672	-1.6%	3 yr bond	99.73				2 year bond	0.12	0.00
China Shanghai	3,736	-2.0%	3 mth bill rate	99.98				3 year bond	0.13	0.00
German DAX	13,976	0.8%	SPI 200	6,776.0				3 year swap	0.25	0.01
UK FTSE100	6,659	0.5%	FX Last 24 hrs					10 year bond	1.61	0.05
<b>Commodities (close &amp; change)*</b>			TWI	65.0	-	-	65.0	<b>United States</b>		
CRB Index	195.1	2.6	AUD/USD	0.7911	0.7968	0.7895	0.7965	3-month T Bill	0.03	0.00
Gold	1,803.35	-2.4	AUD/JPY	83.32	84.35	83.16	84.33	2 year bond	0.12	0.01
Copper	9,326.00	106.5	AUD/GBP	0.5607	0.5636	0.5576	0.5634	10 year bond	1.37	0.03
Oil (WTI)	63.22	1.6	AUD/NZD	1.0779	1.0821	1.0688	1.0696	<b>Other (10 year yields)</b>		
Coal (thermal)	78.55	2.4	AUD/EUR	0.6514	0.6548	0.6504	0.6547	Germany	-0.30	0.01
Coal (coking)	146.75	-0.1	AUD/CNH	5.1112	5.1380	5.0994	5.1354	Japan	0.13	0.00
Iron Ore	169.61	0.6	USD Index	90.1	90.4	90.0	90.1	UK	0.73	0.01

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:** Markets were in a positive mood, spurred on by Fed Chair Powell's repeated message that the Fed will remain accommodative for a long time.

**Share Markets:** The Dow moved higher on the Fed Chair's soothing comments that inflation was not a major threat and that low interest rates would remain for an extended period. The Dow rose 425 points or 1.3% and the tech laden Nasdaq recovered some of its recently lost ground, rising 1.0%. The broader S&P500 was up 1.1% overnight.

**Interest Rates:** Bond markets appear less convinced about inflation than the Fed Chair. US 10-year government bond yields rose a further 3 basis points to 1.37%. In Australia, 10-year yields were up 5 basis points to 1.61%. Three-year Australian government bond yields remained steady at 0.13%.

**Foreign Exchange:** The US dollar index was unchanged at 90.1. However, the AUD moved ahead as did the NZD. The AUD appears ready to test the US\$0.80 level should the USD slip or global economic activity pushes commodity prices higher.

**Commodities:** Oil rose as US oil output fell below 10mn barrels per day for the first time since mid-2020. Also supporting oil was the prospect of firmer global demand. Iron ore rose as did copper and coal Gold held just above \$US1,800 per ounce.

**COVID-19:** US regulators have declared Johnson &

Johnson's COVID-19 vaccine safe and effective. This new vaccine requires only a single dose.

New infections around the world continue to decline but are far from zero. Lockdowns in Europe have now held new infections below 10k per day.

**Australia:** Wages growth remained around historically low levels in the December quarter alongside significant spare capacity in the labour market. Wages growth increased 0.6% from the September quarter, a notable pickup from recent quarterly growth figures. This largely reflects the unwinding of wage freezes and wage cuts from earlier in the year. Growth remained muted in year-ended terms, increasing 1.4%.

The outlook for wages remains anaemic. The RBA has stated we need wages growth at 3.5-4% in year-ended terms to generate CPI inflation within the target range of 2-3%. There is no sign of this happening anytime soon.

Construction activity edged 0.9% lower in the December quarter. This was weaker than expected. Over the past year, work declined a modest 1.4%.

**Europe:** German GDP rose 0.2% in the December quarter for a contraction of 3.7% over the year. Private consumer spending was weak, declining 3.2% in the quarter as COVID-19 restrictions constrained households, but firmer construction and export demand supported activity overall.

**New Zealand:** The Reserve Bank of New Zealand (RBNZ) met yesterday and left its policy settings unchanged as expected. The Overnight Cash Rate (OCR) was held at 0.25% and the cap on the large-scale asset purchase programme remained at \$100bn. While inflation is rising, the RBNZ sees this as temporary. We expect there will be no change in the OCR until 2024.

**United States:** Fed Chair Powell reiterated to the House Financial Services Committee on Wednesday - his second day of testimony to Congress - that the Fed would look through temporary rises in inflation and that employment, though set to recover, remains weak overall.

Fed board member Lael Brainard also emphasised that Fed would not react to “transitory inflationary pressures” and that inflation remains low. She also said that the economy remains far from the Fed’s employment and price goals.

New home sales during January beat market expectations, rising to 923k. The result saw sales rise back towards the post-pandemic high of 979k in July 2020. The December reading of sales was revised upwards to 885k from the initial reading of 842k.

**Today’s key data and events:**

NZ ANZ Business Confidence Feb prev 11.8 (11:00am)

AU Private Capital Expenditure Q4 exp 1.8% prev -3.0% (11:30am)

EZ Consumer Confidence Feb prev -14.8 (9:00pm)

EZ Economic Confidence Feb exp 92.0 prev 91.5 (9:00pm)

US Durable Goods Orders Jan exp 1.0% prev 0.5% (12:30am)

US GDP Q4 Annualised q/q exp 4.2% prev 4.0%(12:30am)

US Pending Home Sales Jan exp 0.0% prev -0.3% (2am)

US Kansas City Fed Index Feb exp 15 prev 17 (3am)

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.

**Hans Kunnen, Senior Economist**  
Ph: 02-8254-1316

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

**Senior Economist**

Hans Kunnen  
hans.kunnen@banksa.com.au  
(02) 8254 1316

**Economist**

Matthew Bunny  
matthew.bunny@banksa.com.au  
(02) 8254 0023

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