

Morning Report

Wednesday, 26 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,115	1.0%			Last	Overnight Chg		Australia		
US Dow Jones	34,312	-0.2%	10 yr bond		98.41		0.03	90 day BBSW	0.04	0.00
Japan Nikkei	28,554	0.7%	3 yr bond		99.80		0.00	2 year bond	0.06	-0.01
China Shanghai	3,754	2.4%	3 mth bill rate		99.96		0.00	3 year bond	0.25	-0.01
German DAX	15,465	0.2%	SPI 200		7,081.0		-35	3 year swap	0.31	0.00
UK FTSE100	7,030	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.69	-0.01
Commodities (close & change)*			TWI	63.9	-	-	63.9	United States		
CRB Index	202.4	-0.5	AUD/USD	0.7756	0.7776	0.7733	0.7751	3-month T Bill	0.01	0.00
Gold	1,899.25	18.2	AUD/JPY	84.34	84.67	84.24	84.31	2 year bond	0.14	-0.01
Copper	9,910.75	-29.0	AUD/GBP	0.5480	0.5496	0.5468	0.5478	10 year bond	1.56	-0.04
Oil (WTI)	66.07	0.0	AUD/NZD	1.0750	1.0749	1.0714	1.0719	Other (10 year yields)		
Coal (thermal)	104.30	1.3	AUD/EUR	0.6349	0.6351	0.6323	0.6327	Germany	-0.17	-0.03
Coal (coking)	125.67	1.2	AUD/CNH	4.9712	4.9735	4.9584	4.9676	Japan	0.08	0.00
Iron Ore	184.60	1.7	USD Index	89.8	89.9	89.5	89.7	UK	0.79	-0.03

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: Several central bank officials in the US continued to reiterate that rising inflationary pressures will only be temporary. Markets were also disappointed by a decline in the US consumer confidence index.

Share Markets: The Dow fell 82 points (or -0.2%), the S&P500 index dropped 9 points (or -0.2%) and the Nasdaq eased 4 points.

Interest Rates: Bond yields fell with the US 2-year yield down 1 basis point and the 10-year yield off 4 basis points after several Federal Reserve officials reiterated the rise in inflation is temporary.

Foreign Exchange: The US dollar appreciated in the early half of last night's session and then undid most of its gains. The Australian dollar stuck to recent trading ranges.

Commodities: Most commodity prices rose further overnight.

COVID-19: A further four new cases were revealed yesterday in Victoria. New restrictions, including mask-wearing indoors and limits on public gatherings, are now in effect in Victoria until at least June 4.

The White House overnight said half of American adults will be fully vaccinated as of Tuesday. The US Centers for Disease Control and Prevention reported 10,262 cases of vaccinated people who were later infected, out of 101 million people who

were fully inoculated.

Australia: Weekly payroll jobs estimates fell 0.5% in the fortnight ending April 24. Total wages paid by employers fell by 1.3%. For the third fortnight in a row, the Australian Bureau of Statistics (ABS) has cautioned that seasonal factors associated with the school holidays may be affecting payrolls. This seasonality issue continues to make it difficult to obtain a clear read on the impact of the ending of JobKeeper. However, despite these distortions, payrolls are suggesting a softer start to jobs growth in May than implied by other indicators.

Larger states led the softer outcomes in the latest fortnight. The three largest states revealed the weakest payrolls growth over the past fortnight. The heaviest fall were seen in Victoria (down 0.8%), followed by Queensland (-0.7%) and New South Wales (-0.5%).

Industry data also suggests those industries most reliant on JobKeeper continue to lag the recovery.

The Roy Morgan survey of consumer confidence lifted 2.3 points to 114.2 in the latest week, the week ending May 23. It is the highest level since September 2018. The data continues to suggest that consumers feel upbeat about the economic outlook, which should help support consumer spending and economic activity. The other widely watched consumer sentiment series is the Melbourne Institute-Westpac survey. It is a monthly

survey and last week revealed a small pullback from 11-year highs in May.

Eurozone: Germany's IFO business climate index rose to 99.2 in May, from 96.8 in the previous month. The result beat market expectations. The expectations index, which indicates firms' projections for the next six months, improved firmly to 102.9 in May. Overall, the release suggests prospects are improving in Germany.

The final release of Germany's GDP data for Q1, however, was softer than the preliminary reading. The result showed a contraction of 1.8% in Q1, worse than the preliminary fall of 1.7%. There was a marked fall in consumer spending due to lockdown restrictions.

United States: New home sales in April fell 5.9% to an annual rate of 863,000 units, as dwelling prices surged amid a tight supply of houses. Indeed, the median new house price soared 20.1% in the year to April to \$372,400. On a year ago, sales are up 48.3%. The pandemic has disrupted labour supply at raw mills and ports, causing shortages of lumber and other raw materials. That is limited builders' ability to ramp up the construction of new homes to plug the inventory gap.

A separate, lagged data release from FHFA showed house prices grew 1.4% in March and accelerated 3.5% in Q1. In the year to March, house prices spiked 13.9%.

In yet another house price release published overnight, property values rose 1.6% in the 20-city index published by CoreLogic and S&P. Year-on-year growth was 13.3%, which was the biggest gain since December 2005.

Consumer confidence was little changed in May, as consumers' short-term optimism of conditions retreated on expectations for decelerating growth and softening labour market conditions in the months ahead. The Conference Board's consumer confidence index dipped to 117.2 in May, following a reading of 117.5 in April. Median expectations were dashed.

Manufacturing activity in the fifth Federal Reserve district, Richmond, showed ongoing growth in May. Richmond's composite index rose one point to 18 in May and indicates expansion.

Federal Reserve Vice Chairman Richard Clarida said the Fed may be able to start taper talk at upcoming meetings. He added that he thinks "it's going to depend on the flow of data we get." Clarida reiterated his view that price pressures will be temporary, although he acknowledged that the

recent jump in the consumer price index was a "very unpleasant surprise".

Fellow Vice Chair Randal Quarles echoed the comments made by Clarida. Quarles also told the Senate Banking Committee that if the Fed is wrong, it has the tools to address it. He also said financial stability risks are "moderate."

Federal Reserve President of Chicago Charles Evans reiterated that the rise in inflation is likely to be "transitory". He said the recent rise in prices is welcome after a decade of shortfalls and does not herald a persistent rise. And further that inflation expectations so far only point to moderate increases.

Finally, Federal Reserve President of Richmond, Thomas Barkin, saw supply-chain and workforce issues lasting into the summer, while pent-up demand is also impacting prices. He sees inflation in energy, freight, and agriculture, but added that market measures of inflation have not exceeded the Fed's target.

Today's key data and events:

AU WBC Leading Index Apr prev 3.29% (10:30am)

AU Construction Work Done Q1 exp 0.8% prev -0.9% (11:30am)

NZ Trade Balance Apr prev \$33mn (8:45am)

NZ RBNZ OCR Decision exp 0.25% prev 0.25% (12:00pm)

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.

Besa Deda, Chief Economist

Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda

dedab@banksa.com.au

(02) 8254 3251

Economist

Matthew Bunny

matthew.bunny@banksa.com.au

(02) 8254 0023

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