

Morning Report

Friday, 27 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,491	-0.5%	Last		Overnight Chg			Australia		
US Dow Jones	35,213	-0.5%	10 yr bond	98.81	-0.02			90 day BBSW	0.01	0.00
Japan Nikkei	27,742	0.1%	3 yr bond	99.71	-0.01			2 year bond	0.02	0.00
China Shanghai	3,670	-1.1%	3 mth bill rate	99.99	0.00			3 year bond	0.26	0.02
German DAX	15,794	-0.4%	SPI 200	7,416.0	-10			3 year swap	0.43	0.01
UK FTSE100	7,125	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.19	0.03
Commodities (close & change)*			TWI	60.7	-	-	60.9	United States		
CRB Index	216.4	-0.3	AUD/USD	0.7277	0.7280	0.7234	0.7238	3-month T Bill	0.04	-0.01
Gold	1,792.43	1.4	AUD/JPY	80.05	80.09	79.59	79.68	2 year bond	0.24	0.00
Copper	9,356.50	-18.0	AUD/GBP	0.5287	0.5293	0.5276	0.5283	10 year bond	1.35	0.01
Oil (WTI)	67.42	-0.9	AUD/NZD	1.0434	1.0444	1.0412	1.0414	Other (10 year yields)		
Coal (thermal)	144.10	1.3	AUD/EUR	0.6182	0.6184	0.6155	0.6156	Germany	-0.41	0.02
Coal (coking)	245.00	3.8	AUD/CNH	4.7082	4.7107	4.6913	4.6918	Japan	0.03	0.00
Iron Ore	153.70	0.4	USD Index	92.8	93.1	92.8	93.0	UK	0.60	0.00

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

Main Themes: Fatal explosions outside Kabul's airport, killing at least 25 people, including 12 US soldiers, drove a fall in market sentiment. Hawkish comments from several Fed members also drove a fall in risk sentiment. Markets will be closely watching comments from the Fed's Jackson Hole gathering from later this morning.

Share Markets: US share markets retraced following 5 days of consecutive gains. The S&P 500 and the NASDAQ both fell 0.6%.

The ASX 200 fell 0.5%. Futures are pointing to a weaker open this morning.

Interest Rates: US interest rates were slightly higher on the day. The US 10-year bond yield increased by 1 basis point to 1.35%. The 2-year yield was broadly unchanged at 0.24%.

The Australian 3-year government bond yield (futures) rose from 0.29% to 0.30%. The 10-year government bond yield (futures) rose from 1.18% to 1.20%.

Foreign Exchange: The US dollar strengthened against a basket of major currencies, in line with an increase in risk aversion. The USD Index rose from a low of 92.8 to a high of 93.1, before retracing slightly to 93.0.

The AUD/USD pair reversed some of its recovery over recent days. The AUD fell from a high of 0.7280 to a low of 0.7234. It is currently sitting at 0.7238.

Commodities: Oil fell following a three-day rally.

Copper was also down. Gold, coal and iron ore all rose.

COVID-19: NSW recorded 1,029 new cases yesterday. This was the highest number of daily infections on record in Australia. Elsewhere, the ACT recorded 14 new cases and Victoria recorded 80 cases.

The lockdown in regional NSW has been extended until midnight on 10 September. The NSW Premier announced that people who are fully vaccinated will be given more freedoms from 13 September. This includes outdoor gatherings of up to 5 people for those outside local government areas (LGAs) of concern, and outdoor gatherings of up to 1 hour for household members in LGAs of concern. Other rules will continue to apply.

The Queensland Government announced plans to build a dedicated regional COVID-19 quarantine facility near Toowoomba.

Meanwhile, New Zealand recorded 68 new cases.

Australia: Heading into recent lockdowns, business confidence and capacity utilisation were around record highs, there had been strong growth in profits and generous tax incentives continued to encourage investment.

These factors underpinned a 4.4% pick up in business investment in the June quarter. This follows robust growth in the December 2020 and March 2021 quarters of 3.0% and 6.0%.

respectively.

There was solid growth in spending on both buildings, up 4.6%, and machinery and equipment spending, up 4.3%. By industry, most of the increase was driven by spending in the non-mining sector, which rose 6.0%.

Spending plans were resilient despite the survey being conducted in July and August when much of the country was in lockdown. Estimate 3 for 2021-22 was \$127.7 billion, which is 17.5% higher than Estimate 3 from a year ago.

The health and economic outlook remains in flux. Given the uncertainty, we are inclined to place less importance on spending plans this quarter.

Business confidence has soured since the onset of lockdowns. The highly uncertain environment is likely to see some businesses put spending plans on hold as they shore up their financial position.

Beyond the near-term disruptions, we expect the economy will rebound rapidly which in turn will support a resumption in the upwards trend in business investment.

Separately, weekly payroll jobs fell by 2.0% in the fortnight to 31 July, following a revised 1.8% fall in the previous fortnight. The release coincided with tighter lockdown restrictions in NSW along with the 2 week pause on construction activity. The release also included lockdowns in Victoria and SA, along with travel and border restrictions across all states and territories.

Across the states and territories, NSW (-3.7%) recorded the largest fall in payroll jobs, followed by SA (-2.7%), Victoria (-1.3%) and Queensland (-1.3%). All these states had some form of lockdown or travel restriction over the period.

Payroll jobs have fallen by 7.1% over the first 5 weeks of the lockdown in NSW, with Greater Sydney falling by 8.9%. Payroll jobs in Greater Sydney have now fallen by more than they did at the onset of the pandemic in early 2020 (-8.0%).

Eurozone: European broad money supply grew by 7.6% over the year to July. This was in line with market expectations and lower than growth over the year to June of 8.3%.

United States: The second estimate of Q2 GDP growth rose to an annualised rate of 6.6% for Q2. This was slightly higher than the first estimate of 6.5%, but slightly weaker than consensus expectations of 6.7%. The upgrade to growth reflects stronger-than-expected growth in consumer spending and exports. Consumer

spending grew by 11.9%, up from the first estimate of 11.8%. The Core Personal Consumption Expenditure (PCE) Price Index remained unchanged from the first estimate at 6.1%.

Initial jobless claims rose to 353k for the week ending 21 August. This was up on a revised 349k for the prior period and above consensus expectations of 350k. While jobless claims have increased as the delta variant continues to spread through the country, they remain around their lowest levels since the pandemic began.

The Kansas City Fed manufacturing survey for August came in at 29. This was down from the July reading of 30 but was above consensus expectations of 25. The reading suggests continued expansion in manufacturing activity in August. Expectations for future activity remained solid.

Three non-voting members of the Federal Open Market Committee (FOMC) spoke overnight. The theme from all three speakers was hawkish, with suggestions that the Fed should start tapering its asset purchase program sooner rather than later.

Kaplan supported a more gradual tapering, with an earlier start. He supported an announcement in September, with tapering to being in October.

George said that it was 'important to get started' on tapering. While the delta variant poses a risk to growth, she noted that it didn't change her 'calculus that it is time to begin to make those adjustments given the gains we have seen so far.' She remains open to discussion around timelines but is less interested in deferring the decision and urged a move to begin this year.

Bullard also called for a start to tapering soon, with an end by the end of the Q1 in 2022. He also noted concerns about financial stability issues, particularly in the housing market.

Today's key data and events:

NZ ANZ Consumer Conf. Index Aug prev 113.1 (8am)
US Federal Reserve's Jackson Hole Retreat (9am)
AU Retail Sales Jul Final exp -2.0% prev -1.8% (11:30am)
CH Industrial Profits Jul y/y prev 20.0% (11:30am)
AU RBA's Richards and Thompson speak before Select Committee (12:30pm)
US Personal Income Jul exp 0.2% prev 0.1% (10:30pm)
US Personal Spending Jul exp 0.4% prev 1.0% (10:30pm)
US PCE Core Deflator Jul exp 0.3% prev 0.4% (10:30pm)
US UoM Cons. Sent. Aug Final exp 70.8 prev 70.2 (12am)
UK Nationwide House Prices Aug exp 0.3% prev -0.5% (Sat 28 Aug)

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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