

Morning Report

Thursday, 27 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,093	-0.3%	Last		Overnight Chg			Australia		
US Dow Jones	34,323	0.0%	10 yr bond	98.41	0.02			90 day BBSW	0.04	0.00
Japan Nikkei	28,642	0.3%	3 yr bond	99.79	0.00			2 year bond	0.06	0.00
China Shanghai	3,767	0.3%	3 mth bill rate	99.96	0.00			3 year bond	0.26	0.02
German DAX	15,451	-0.1%	SPI 200	7,093.0	3			3 year swap	0.33	0.00
UK FTSE100	7,027	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.67	-0.01
Commodities (close & change)*			TWI	63.9	-	-	64.1	United States		
CRB Index	203.4	1.0	AUD/USD	0.7753	0.7796	0.7731	0.7743	3-month T Bill	0.01	-0.01
Gold	1,896.67	-2.6	AUD/JPY	84.33	84.81	84.29	84.51	2 year bond	0.15	0.01
Copper	9,910.75	-29.0	AUD/GBP	0.5480	0.5504	0.5475	0.5482	10 year bond	1.58	0.02
Oil (WTI)	66.14	-0.1	AUD/NZD	1.0724	1.0733	1.0616	1.0635	Other (10 year yields)		
Coal (thermal)	103.80	-0.5	AUD/EUR	0.6329	0.6360	0.6326	0.6350	Germany	-0.21	-0.04
Coal (coking)	125.50	-0.2	AUD/CNH	4.9703	4.9783	4.9387	4.9413	Japan	0.07	0.00
Iron Ore	172.95	0.5	USD Index	89.7	90.1	89.6	90.0	UK	0.75	-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: Markets drifted in search of direction. The Reserve Bank of New Zealand left policy settings unchanged but flagged rate hikes next year.

Share Markets: US stocks ground higher despite the absence of market-moving news. The S&P500 climbed 0.2% and the Nasdaq rose 0.6% while the Dow was flat. The ASX 200 edged 0.3% lower.

Interest Rates: US 10-year treasury yields ticked up 2 basis points to 1.58% while Australian 10-year yields slipped 1 basis point.

Foreign Exchange: The Australian dollar rose to just below 0.7800 against the US dollar before moving lower to 0.7743. The US dollar strengthened.

The New Zealand dollar jumped higher against the US dollar after the Reserve Bank of New Zealand's hinted at rate hikes next year.

The Chinese yuan appreciated to its strongest level against the US dollar since 2018. The onshore spot rate closed at 6.3908 against the US dollar. State media chimed in with comments supporting the appreciation.

Commodities: Iron ore crept higher while oil and gold slipped.

Australia: The Westpac-Melbourne Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future fell 0.5 percentage points to 2.85% in April. This continues to point to strong above trend

growth through 2021 and into early 2022.

Construction activity rose 2.4% in the March quarter. Over the year, construction work is still down -1.1%.

Residential construction jumped 5.1% supported by low interest rates and the HomeBuilder program. Renovations surged 11.3% and new building work increased by 4.1%.

Business construction (infrastructure and non-residential building) continued its downward trend, contracting 1.1%. A 5.6% fall in non-residential building outweighed a 1.6% lift in infrastructure activity. The non-residential building sector was hit hard by the pandemic with activity falling by almost 18% over the year.

The upswing in housing has a lot further to run. Building approvals are still around record highs. This will continue to provide support to construction activity over the coming period.

New Zealand: The Reserve Bank of New Zealand (RBNZ) left monetary policy settings unchanged but indicated that rate hikes could begin by the September quarter 2022.

The RBNZ noted there are skill shortages in some areas. These shortages, alongside an increase in the minimum wage, are expected to increase wages growth over the next year.

The RBNZ upgraded its activity forecasts. Although there was a lull in activity over the summer due to

lack of overseas tourists, the RBNZ expects higher rates of growth for the rest of the year.

The RBNZ recognises that inflation will spike in the near term but expects this will be temporary. Inflation is expected to decline to 1.5% by the middle of next year before tracking up a little over 2% over the following years.

There was also a subtle tweak in the forward guidance. The RBNZ noted that it will maintain current policy settings until inflation is sustained at the 2% target midpoint, and employment is at its maximum sustainable level – this was changed from “at or above”.

A monthly trade surplus of NZ\$388.0 million was recorded in April, up from NZ\$33.0 million in March. Both imports and exports declined.

United States: Federal Reserve Vice Chair Quarles added his voice to officials saying the Fed will likely begin talking about tapering in the coming months. He added, while the spike in inflation is likely to be largely transitory, risks in the medium term are weighed to the upside, partly due to fiscal stimulus.

Today's key data and events:

AU Private Capital Expenditure Q1 exp 1.6% prev 3.0% (11:30am)

AU Business Conditions and Sentiments (11:30am)

CH Industrial Profits Apr y/y prev 92.3% (11:30am)

US Durable Goods Orders Apr exp 0.8% prev 0.8% (10:30pm)

US GDP Q1 exp 6.5% prev 6.4% (10:30pm)

US Pending Home Sales Apr exp 0.5% prev 1.9% (12:00am)

US Kansas City Fed index May exp 30 prev 31 (1:00am)

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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