

Morning Report

Friday, 28 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,095	0.0%	Last		Overnight Chg			Australia		
US Dow Jones	34,465	0.4%	10 yr bond	98.38	-0.05			90 day BBSW	0.04	0.00
Japan Nikkei	28,549	-0.3%	3 yr bond	99.79	-0.01			2 year bond	0.07	0.01
China Shanghai	3,783	0.4%	3 mth bill rate	99.96	0.00			3 year bond	0.27	0.01
German DAX	15,407	-0.3%	SPI 200	7,148.0	58			3 year swap	0.34	0.01
UK FTSE100	7,020	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.68	0.05
Commodities (close & change)*			TWI	64.1	-	-	63.7	United States		
CRB Index	205.8	2.3	AUD/USD	0.7743	0.7758	0.7723	0.7741	3-month T Bill	0.00	-0.01
Gold	1,896.54	-0.1	AUD/JPY	84.50	85.09	84.34	85.04	2 year bond	0.14	0.00
Copper	10,212.15	240.9	AUD/GBP	0.5483	0.5492	0.5446	0.5451	10 year bond	1.61	0.03
Oil (WTI)	67.26	0.4	AUD/NZD	1.0630	1.0640	1.0601	1.0627	Other (10 year yields)		
Coal (thermal)	109.00	1.1	AUD/EUR	0.6350	0.6359	0.6339	0.6350	Germany	-0.17	0.03
Coal (coking)	124.92	-0.6	AUD/CNH	4.9415	4.9478	4.9287	4.9381	Japan	0.08	0.01
Iron Ore	185.00	2.0	USD Index	90.1	90.2	89.9	90.0	UK	0.81	0.06

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: US stocks and bond yields increased on solid economic data and the anticipation of big spending plans from President Biden.

Share Markets: US stocks moved higher on strong economic data and an expected large budget announcement. The Dow rose 0.4%.

In Europe, the Dax slipped 0.3%. The ASX 200 was unchanged.

Interest Rates: US 10-year treasury yields increased 3 basis points. Australian 10-year government bond yields rose 5 basis points to 1.68%.

Foreign Exchange: The Australian dollar stuck to its range from recent weeks. The US dollar edged lower.

Commodities: WTI crude oil climbed to its highest price in more than two years alongside solid economic data. Iron ore rose and gold was little changed.

COVID-19: Melbourne has entered a 7-day lockdown following a new outbreak.

Australia: Private capital expenditure jumped 6.3% in the March quarter, alongside a continued improvement in the economic outlook. The result was well above consensus expectations.

These data are an encouraging sign that the recovery in the business sector is charging ahead. Businesses are optimistic, activity is bouncing back and tax incentives are helping to spur spending.

Spending on machinery and equipment led the rise, surging 9.1%. Businesses are responding to the tax initiatives introduced in the October Federal Budget and the reopening of the economy.

Investment in building and structures lifted 3.8% in the quarter, although remains 5.3% lower than before the pandemic.

The pick up was led by investment in non-mining industries, which rose 7.1% in the quarter. Mining investment increased 4.1% over the same period.

Spending plans have been upgraded. Estimate 6 for spending in 2020-21 was \$124.0 billion. Importantly, we received Estimate 2 for 2021-22. It was \$113.6, which suggests investment will increase around 7% in 2021-22 after dipping in 2020-21.

Looking ahead, we expect a further recovery in business investment. Business confidence is at a record high, there has been strong growth in profits and business surveys point to an increase in capacity utilisation.

The Australian Bureau of Statistics ran a survey of businesses in mid May which showed that operating conditions for businesses have continued to recover.

Trading conditions were stable, with 78% of businesses experiencing either no change or an increase in revenue.

The proportion of businesses that reported their cash on hand could cover 3 months or more of

business operations has fallen to 43% in May. It was as high as 55% in June last year.

The survey also found that since the end of March, 20% of businesses have stopped accessing support measures such as wage subsidies, renegotiation of property rent or lease agreements and deferred loan payments.

China: Industrial profit growth is decelerating, although still remains hot. Profits grew 57.0% in the 12 months to April, down from 92.3% in March.

High commodity prices and the underperformance of the consumer goods sector has weighed on manufacturing profitability.

Metal processing firms recorded some of the highest year on year profit increases, spurred by higher metal prices. However, China's government watchdogs have warned industrial metal companies to maintain normal market order as it tries clamps down on high commodity prices.

United States: GDP in the March quarter was unchanged at 6.4% annualised in its second estimate, although personal consumption was revised high from 10.7% to 11.3%.

Durable goods order fell 1.3% in April, largely due to transportation. But the more important measure which excludes transport rose 1.0%, beating expectations.

The core personal consumption price index, the Federal Reserve's preferred measure of inflation, rose by more than expected, increasing 2.5% in the March quarter.

Weekly initial jobless claims were better-than-expected, hitting a post-pandemic low of 406k.

Reports suggest President Biden will propose a \$6 trillion budget for the 2022 fiscal year on Friday. The plan is largely aspirational given the Democrats hold a narrow majority in the House and Senate and opposition is expected from Republicans.

Today's key data and events:

EZ Consumer Confidence May final prev -5.1 (7:00pm)
 EZ Economic Confidence May exp 112.1 prev 110.3 (7:00pm)
 US Personal Income Apr exp -14.3% prev 21.1% (10:30pm)
 US Personal Spending Apr exp 0.5% prev 4.2% (10:30pm)
 US Retail Inventories Apr exp -2.0% prev -1.4% (10:30pm)
 US PCE Core Apr exp 0.6% prev 0.4% (10:30pm)
 US Chicago PMI May 68.0 prev 72.1 (11:45pm)
 US UoM Consumer Sentiment May final exp 83.0 prev 82.8 (12:00am)

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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