bankSA

Morning Report

Wednesday, 29 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,276	-1.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,300	-1.6%	10 yr bond	98.50		0.00		90 day BBSW	0.02	0.00
Japan Nikkei	30,184	-0.2%	3 yr bond	99.53		0.00		2 year bond	0.03	0.01
China Shanghai	3,775	0.5%	3 mth bill rate	99.96		-0.01		3 year bond	0.31	0.02
German DAX	15,249	-2.1%	SPI 200	7,157.0		-82		3 year swap	0.52	0.00
UK FTSE100	7,028	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.48	0.07
Commodities (close & change)*			TWI	61.0	-	-	61.3	**United States**		
CRB Index	228.6	0.3	AUD/USD	0.7287	0.7311	0.7226	0.7240	3-month T Bill	0.03	-0.01
Gold	1,734.01	-16.2	AUD/JPY	80.88	81.32	80.49	80.73	2 year bond	0.30	0.02
Copper	9,369.50	27.8	AUD/GBP	0.5318	0.5355	0.5307	0.5350	10 year bond	1.54	0.05
Oil (WTI)	75.29	-0.2	AUD/NZD	1.0392	1.0432	1.0377	1.0402	**Other (10 year yields)**		
Coal (thermal)	198.45	4.1	AUD/EUR	0.6230	0.6249	0.6187	0.6196	Germany	-0.20	0.02
Coal (coking)	362.67	-5.0	AUD/CNH	4.7069	4.7189	4.6732	4.6845	Japan	0.09	0.02
Iron Ore	112.65	-0.1	USD Index	93.4	93.8	93.4	93.7	UK	0.99	0.04

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: Risk sentiment was negatively impacted by the risk of the US hitting the debt ceiling, stagflation concerns (high inflation and low growth), and comments from Senator Warren regarding US Fed Chair Powell's record on financial regulation. Equities fell sharply, bond yields jumped higher and the defensive US dollar was up.

Share Markets: US share markets fell sharply following concerns around the US government hitting its debt ceiling. US Treasury Secretary, Janet Yellen, warned that the US Treasury will effectively run out of money around 18 October.

Equities saw their worst sell off since May. The S&P 500 was down 2.0% and the NASDAQ also fell sharply, down 2.8%.

The ASX 200 fell 1.5% and futures are pointing to a further large drop on the open today.

Interest Rates: Interest rates jumped higher in line with a hit to risk sentiment.

The US 10-year treasury yield rose 5 basis points to 1.54% while the 2-year yield was 2 basis point higher, at 0.30%.

The Australian 10-year government bond yield (futures) traded around 1.51% and the 3-year government bond yield (futures) hovered around 0.48%.

Foreign Exchange: The defensive US dollar rose against major currencies. The USD Index rose from a low of 93.4 to a high of 93.8, before retracing slightly to settle around 93.7.

The AUD/USD pair fell on the decrease in risk sentiment. The pair fell from a high of 0.7311 to a low of 0.7226. It has since recovered slightly and is around 0.7240.

Commodities: Oil fell following its recent surge. Gold, and iron ore were also down.

COVID-19: NSW recorded 863 new cases yesterday and 7 deaths. Victoria recorded 867 new cases and 4 deaths. Elsewhere, the ACT recorded 13 new cases and one death. Queensland recorded 4 new cases.

Australia: Retail spending took another hit in August as lockdowns continued to bite. Sales fell 1.7% in the month to be 0.7% lower over the year to August.

There is clear evidence of a two-speed economy differentiated by which regions are in lockdown. Retail spending is now around or below its pre-pandemic level in NSW, Victoria and the ACT while in the rest of the country, spending remains over 10% higher.

Spending fell another 3.5% in NSW in August, hitting its lowest level since April 2020. Retail sales in Victoria declined 3.0% after the state plunged back into lockdown. Spending fell 19.9% in the ACT – its largest decline on record – after the territory

was also hit with restrictions.

Spending fell in August in Queensland (-0.9%), Tasmania (-1.1%) and the Northern Territory (0.6%). Meanwhile, sales rose in SA (6.6%) following a reopening boost and in WA (2.8%).

By category, spending patterns have largely been consistent with previous lockdowns. Clothing, footwear and personal accessories and Department stores both saw a second consecutive month of double-digit falls. Food spending (i.e. grocery stores) rose in the month, while there was another drop in spending on Cafes, restaurants and takeaway.

Restrictions are likely to continue to weigh on spending in the coming months. But beyond the near-term uncertainty, consumer spending looks set for solid growth as lockdowns lift.

Separately, the Roy Morgan weekly consumer confidence index rose 0.4% to 103.7 in the week ending 26 September. The small increase in confidence came after the Victorian Premier outlined the states reopening plan a week ago and both NSW and Victoria are on track to re-open in October.

China: Industrial profits grew by 10.1% over the year to August, down from 16.4% in July. Profits slowed for a sixth consecutive month as manufacturers struggled with high commodity prices, whilst constraints including the Delta outbreak, floods and a chip shortage curbed production.

United States: Treasury Secretary Janet Yellen and Federal Reserve Chair Jerome Powell both spoke of the need to lift the debt ceiling. Yellen noted that lifting the debt ceiling was “necessary to avert a catastrophic event for our economy.” Powell added that a potential default on government debt should the debt ceiling not be raised would have “devastating” consequences.

Consumer confidence was down for the third consecutive month, to reach a seven month low. Confidence fell to 109.3 in September. This was down from 115.2 in August and below consensus expectations of 115.0. The spread of the Delta variant and higher prices continue to weigh on confidence.

House prices continued to rise but are showing signs of slowing momentum. The FHFA house price index rose 1.4% in July, down from 1.7% in June and slightly below consensus expectations of 1.5%. Separately, the CoreLogic house price index also rose by 1.55% in July. This was down from a 1.79% increase in June and below consensus expectations of a 1.70% gain. Despite the slowing monthly growth momentum, annual growth remains high. All regions in the FHFA survey grew at an annual rate above 15% and the CoreLogic index showed annual growth of almost 20%. House prices continue to be affected by strong demand and a lack of supply.

The Richmond Fed manufacturing index fell into negative territory, dropping to -3 in September. This was down from +9 in August and well below consensus expectations of +10. This is the first reading below zero since May 2020. The negative reading indicates that manufacturing activity in the Atlantic region contracted in September. Continued supply chain issues, including low inventories and long lead times mean manufacturers are having difficulty in meeting a backlog of orders. However, firms remained optimistic that conditions would improve in the future.

Today’s key data and events:

EZ Consumer Confidence Sep Final prev -4.0 (7pm)
EZ Economic Confidence Sep exp 116.9 prev 117.5 (7pm)
EZ Industrial Confidence Sep exp 12.5 prev 13.7 (7pm)
EZ Services Confidence Sep exp 16.4 prev 16.8 (7pm)
US Pending Home Sales Aug exp 1.0% prev -1.8% (12am)

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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