

Morning Report

Tuesday, 2 February 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,663	0.8%			Last	Overnight Chg		Australia		
US Dow Jones	30,229	0.8%	10 yr bond	98.84				90 day BBSW	0.01	0.00
Japan Nikkei	28,091	1.5%	3 yr bond	99.82				2 year bond	0.11	0.00
China Shanghai	3,674	0.6%	3 mth bill rate	99.98				3 year bond	0.11	0.00
German DAX	13,622	1.4%	SPI 200	6,626.0				3 year swap	0.16	0.00
UK FTSE100	6,466	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.15	0.02
Commodities (close & change)*			TWI	63.0	-	-	63.0	United States		
CRB Index	177.2	3.0	AUD/USD	0.7625	0.7663	0.7606	0.7624	3-month T Bill	0.05	0.00
Gold	1,861.82	14.2	AUD/JPY	79.88	80.21	79.69	80.02	2 year bond	0.11	0.00
Copper	7,802.55	-59.9	AUD/GBP	0.5563	0.5590	0.5553	0.5581	10 year bond	1.07	0.00
Oil (WTI)	53.69	1.5	AUD/NZD	1.0638	1.0663	1.0624	1.0652	Other (10 year yields)		
Coal (thermal)	84.15	-4.1	AUD/EUR	0.6277	0.6334	0.6275	0.6321	Germany	-0.52	0.00
Coal (coking)	152.40	-6.1	AUD/CNH	4.9197	4.9508	4.9086	4.9366	Japan	0.06	0.01
Iron Ore	151.03	-1.6	USD Index	90.6	91.0	90.5	91.0	UK	0.32	-0.01

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: Equity markets were unsettled by recent volatility in certain stocks but other markets were largely unaffected.

Share Markets: Equity markets recovered much of the ground lost last Friday. The Dow rebounded 230 points or 0.8%, the S&P500 rose 1.7% and the Nasdaq was up 2.6%.

European markets were positive. The FTSE rose 0.9%, the Dax was up 1.4% and the French CAC40 rose 1.2%.

In Australia, the ASX200 rose 56 points or 0.8% with futures up 34 points this morning, pointing to a solid start to the day's trade.

Interest Rates: Equity market volatility was ignored as 'noise' by interest rate markets. There was minimal movement across national yield curves. Australian 10-year government bond yields rose 2 basis points to 1.15%, their UK equivalent fell 1 basis point to 0.32% and in the US they were steady at 1.07%. Shorter-term yields remained steady.

Foreign Exchange: The US dollar index rose to 91.0 overnight and saw the AUD drift down into the low US\$76 cent range. The AUD lifted marginally against the NZD.

Commodities: Silver appeared to be caught up the equity market disruption rising 9.7% in two days. Other commodity price movements were more subdued. Gold was firmer as was oil, but copper

and iron ore prices edged back.

Australia: Dwelling prices rose by 0.9% nationally in January to a new record high. Home values across capital cities rose 1.7% and rose to new peaks in Adelaide, Brisbane, Canberra and Hobart. Very low rates of interest and low inventory are underpinning the lift in prices.

A couple of emerging trends continued in January, as Australians rethink the way they work, live and live. Regional dwelling prices grew faster than capital city prices, house prices grew faster than unit prices and the larger states of NSW and Victoria were witnessing the strongest shift of demand to regional areas.

Dwelling prices have also recovered earlier and stronger in regional Australia than capital cities from their COVID-19-related troughs last year.

New lending for housing is also growing at a firm clip; new lending rose for a seventh consecutive month in December as low interest rates overcame the impact of low population growth and the COVID-19 barriers to activity. The value of new loans (excluding refinancing) rose 8.6% in the month.

Owner occupiers continue to lead the charge with new lending up 8.7% for the month and 38.9% over the past 12 months. By purpose, construction lending was firmest in the month, rising 17.1%.

From an economic recovery perspective, it is pleasing to see the strong performance of lending for the construction of new homes. This will add to the demand for labour in this pivotal industry.

Investors are moving back into the market. Demand from investors has been steadily rising for the past seven months, rising 8.2% in December to be up 10.9% on December 2019.

Job ads rose 2.3% in January, after a strong lift of 8.6% in December. The data suggests the labour market continues to improve.

The AiG performance of manufacturing index improved 3.2 points to 55.3 in January. A reading above 50 indicates an expansion in activity is likely.

China: Like the trend in the official PMIs, the Caixin manufacturing PMI pulled back in January. It fell 1.5 points to 51.5 and fell short of consensus expectations. However, the reading remains above 50, which indicates an expansion in activity. The slight decrease is likely due to the Spring Festival, which is the traditional off-season for China's manufacturing industry. A recent resurgence in COVID-19 cases might also have contributed to the lower result in January.

United States: US manufacturing ISM survey in January pulled back to a still strong 58.7 from a revised 60.5. Notable factors were the sharp lift in prices paid to 82.1 from 77.6 as supply constraints tightened and backlogs edged higher. Although demand remained high, new orders pulled back to 61.1 from 67.5 and production slipped to 60.7 from 64.7.

The Markit US manufacturing PMI edged higher from 59.1 in December to 59.2 in January. Both measures of US manufacturing point towards ongoing expansion.

Construction spending rose 1.0% in December following a 1.1% lift in November. Spending has increased in six of the past seven months.

Fed member Rosengren said in a speech last night that there was a big role for fiscal policy to play in getting the economy back to full employment and noted that the Fed "would do everything in its power" to achieve that aim. His colleague at the Fed, Dr Raphael Bostic said that "the road to a stronger economy would be long for the vulnerable."

Today's key data and events:

AU Payroll Jobs & Wages w/e Jan 16 (11:30am)

AU Reserve Bank Board Meeting (2:30pm)

NZ CoreLogic House Prices Jan y/y prev 11.1% (4pm)

UK Nationwide House Prices Jan exp 0.3% prev 0.8% (6pm)

EZ GDP Q4 Advance exp -0.9% prev 12.5% (9pm)

US Federal Reserve's Kaplan Speech (5am)

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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