Morning Report

Tuesday, 2 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,790	1.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	31,660	2.4%	10 yr bond	98.31		-0.02		90 day BBSW	0.03	0.00
Japan Nikkei	29,664	2.4%	3 yr bond	99.73		0.00		2 year bond	0.12	0.00
China Shanghai	3,723	1.2%	3 mth bill rate	99.97		0.00		3 year bond	0.12	0.00
German DAX	14,013	1.6%	SPI 200	6,825.0		68		3 year swap	0.28	-0.07
UK FTSE100	6,589	1.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.67	-0.25
Commodities (close & change)*			TWI	64.5	-	-	63.9	**United States**		
CRB Index	189.4	-1.1	AUD/USD	0.7706	0.7787	0.7706	0.7778	3-month T Bill	0.03	-0.01
Gold	1,724.82	-9.2	AUD/JPY	82.13	83.13	82.11	83.09	2 year bond	0.13	0.00
Copper	9,093.25	-335.0	AUD/GBP	0.5553	0.5588	0.5526	0.5587	10 year bond	1.44	0.04
Oil (WTI)	60.55	-0.9	AUD/NZD	1.0653	1.0702	1.0641	1.0699	**Other (10 year yields)**		
Coal (thermal)	83.80	2.3	AUD/EUR	0.6383	0.6460	0.6383	0.6457	Germany	-0.33	-0.07
Coal (coking)	139.79	-0.1	AUD/CNH	4.9935	5.0359	4.9929	5.0316	Japan	0.16	-0.01
Iron Ore	167.57	-1.5	USD Index	90.9	91.1	90.7	91.1	UK	0.76	-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: Global equities rebounded as yields subsided in most major markets. The RBA continued unscheduled bond purchases.

Share Markets: Share markets were a sea of green yesterday as investors shrugged off concerns about the recent increase in bond yields. In the US, the Dow jumped 2.4%.

In Europe, the FTSE100 and the Dax were up 1.6%

In Australia, the ASX200 was up 1.7% and the futures market points to a solid open.

Interest Rates: All eyes are on the Reserve Bank of Australia (RBA) which meets today. Markets are watching closely for any evidence that the board is contemplating a change to yield curve control or quantitative easing on the back of bond market developments over recent weeks.

The RBA purchased $4b in longer-term bonds yesterday, twice the size of its usual purchases on Monday, as a part of its quantitative easing program. This follows purchases on Friday to defend the 3-year government bond yield target, under its yield curve control policy.

Australian 10-year bond yields fell 25 basis points to 1.67% after surging on Friday, although remain over 50 basis points higher than at the start of the February. Shorter-term Australian government bond yields were largely unchanged. The 3-year swap rate closed 7 basis points lower.

Foreign Exchange: The AUD/USD pair rose from 0.7706 to 0.7778. This follows a sharp sell over the past couple of sessions where the AUS lost around 3 US cents after breaching 0.8000. The US dollar was slightly stronger.

Commodities: The price of West Texas Intermediate declined ahead of a key OPEC+ meeting this week that may lead producers to increase supply. Gold steadied after its biggest monthly slump since 2016.

Australia: The housing data released yesterday – housing finance and dwelling prices – showed the signs of a growing upturn in the housing market.

New lending for housing rose for an eighth consecutive month in January - increasing a further 10.5%. Low interest rates, government assistance programs and expectations of further house price growth have put a rocket under demand. New lending was up 44.3% on January last year, the highest growth rate since the series started in 2002. This is a boom with monthly new lending at record levels.

There was strong demand from both owner occupiers and investors. New lending to owner occupiers rose 10.9% in the month to be up 52.3% on January 2020. New lending to investors was up 9.4% in January with the pace of grow increasing in each of the past three months. Investors are flooding back to the market having kept a low profile during the worst of the COVID-19 crisis.

The proportion of first-home buyers among owner occupiers obtaining loans continues to rise. In January they accounted for 36.5% of new loans in this category.

House prices are gaining momentum. Housing supply is constrained, mortgage rates are at record lows and there are large government incentives supporting first-home buyers. Unemployment has been declining and consumers are more confident about the outlook.

Dwelling prices increased 2.1% nationally in February, according to data from CoreLogic. This is the fastest month-on-month increase since 2003 and took prices to a new record high. It is occurring against a background of zero immigration and low population growth.

All capital cities and regional areas recorded increases in prices. Capital cities across Australia gained 2.1% whilst regional Australia rose 2.0% in February. Sydney and Hobart dwelling prices saw the strongest growth in the month, each increasing by 2.5%. Regional Tasmania rose at the fastest clip across the regions during the month at 2.7%.

Annual growth in regional areas continues to be significantly faster than capital cities (9.4% vs 2.6%).

The divergence in the prices of houses and units also continued. House prices grew 2.3% nationally versus 1.3% for units.

We expect dwelling prices to increase around 10% in 2021 and again in 2022. Low rates are here to stay for an extended period and the labour market should continue to improve. Furthermore, there is a low inventory of available houses to buy in many parts of Australia, causing prices to squeeze higher.

In other data, the business indicators survey revealed a flat outcome for business inventories in Q4. It suggests inventories will add 0.1 percentage points to economic activity in the quarter. During the COVID-19 recession, the collapse in output was associated with a sharp reduction in business inventories. Inventories contracted in Q1 and Q2 by -1.5% and -2.9%, respectively. Over the second half of 2020, with activity recovering as the economy reopens, inventories are beginning to stabilise. Inventories edged 0.3% lower in Q3, followed by the flat outcome for Q4.

Company profits contracted by 6.6% in Q4 to be up 15.1% on a year ago. The annual outcome is solid, particularly given it has occurred during an economic downturn. The tapering of government support programs contributed to the contraction of profits during the quarter.

The AiG performance of manufacturing index rose to 58.8 in February, from 55.3 in January. It is the fifth consecutive monthly reading above 50.0, which suggests an expansion of activity is likely over the next few months.

Job advertisements climbed 7.2% in February, after a rise of 2.6% in January. The strong gain in February is indicative of improving labour market conditions.

China: Like the official series, the Caixin purchasing managers' index (PMI) fell in February. It fell 0.6 points to 50.9, also disappointing market expectations, but remained above the critical expansion level of 50.0.

United States: Construction spending was up 1.7% in the month of January versus expectation of a 0.8% increase. New home building is supporting construction, driven by historically low rates and city dwellers seeking more space in the suburbs.

The ISM factory survey rose to 60.8 from 58.7 in February, beating expectations. This marks a new post-lockdown high driven by pent-up demand.

The Markit manufacturing PMI print for February was stronger than expected, ticking up to 58.6 from 58.5. This suggests ongoing solid growth in manufacturing and remains well above pre-COVID levels. A reading above 50 indicates growth.

Today's key data and events:

NZ Terms of Trade Q4 exp 1.0% prev -4.7% (8:45am)
AU Balance of Payments Q4 (11:30am)
  Current Account exp $13.5bn prev $10.0bn
  Net Exports Contribution to GDP exp -0.4ppt prev -0.9ppt
AU Government Statistics Q4 (11:30am)
AU Building Approvals Jan exp -8.0% prev 10.9% (11:30am)
AU RBA Board Meeting (2:30pm)
  Cash Rate Target exp 0.10% prev 0.10%
  Three-year Bond Yield Target exp 0.10% prev 0.10%
UK Nationwide House Prices Feb exp -0.3% prev -0.3% (6pm)
EZ Core Consumer Prices Feb y/y exp 1.1% prev 1.4% (9pm)
US Federal Reserve's Brainard Speech (5am)
US Federal Reserve's Daly Speech (6am)

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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