

Morning Report

Monday, 31 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
					Last	Overnight Chg		Australia		
S&P/ASX 200	7,180	1.2%						90 day BBSW	0.04	0.00
US Dow Jones	34,529	0.2%	10 yr bond		98.37	0.00		2 year bond	0.06	0.01
Japan Nikkei	29,149	2.1%	3 yr bond		99.78	0.00		3 year bond	0.28	0.02
China Shanghai	3,774	-0.2%	3 mth bill rate		99.96	0.00		3 year swap	0.36	0.03
German DAX	15,520	0.7%	SPI 200		7,181.0	6		10 year bond	1.69	0.06
UK FTSE100	7,023	0.0%	FX Last 24 hrs	Open	High	Low	Current			
Commodities (close & change)*			TWI	63.7	-	-	63.6	United States		
CRB Index	205.7	-0.1	AUD/USD	0.7741	0.7747	0.7677	0.7713	3-month T Bill	0.00	-0.01
Gold	1,903.77	7.2	AUD/JPY	85.04	85.15	84.55	84.68	2 year bond	0.14	0.00
Copper	10,250.75	38.6	AUD/GBP	0.5451	0.5461	0.5428	0.5437	10 year bond	1.59	-0.01
Oil (WTI)	66.32	-0.5	AUD/NZD	1.0627	1.0656	1.0612	1.0630	Other (10 year yields)		
Coal (thermal)	107.00	3.2	AUD/EUR	0.6350	0.6358	0.6316	0.6321	Germany	-0.18	-0.01
Coal (coking)	125.12	0.2	AUD/CNH	4.9381	4.9393	4.8959	4.9081	Japan	0.08	0.00
Iron Ore	188.75	4.1	USD Index	90.0	90.4	90.0	90.0	UK	0.80	-0.02

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US share markets finished higher on Friday and the US dollar firmed. Chinese officials are eyeing the appreciation of the yuan more closely.

Victoria's Acting Premier unveiled a support package for Victorian businesses.

Share Markets: US share markets finished in the black on Friday, underpinned by a supportive Budget from the US Democrats. The Dow lifted 65 points (or +0.2%), the S&P 500 index rose 3 points (or +0.1%) and the Nasdaq appreciated 12 points (or +0.1%).

Interest Rates: US bond yields were little changed with the 2-year yield closing unchanged at 0.14% and the 10-year bond yield losing just 1 basis point to end Friday's session at 1.59%.

The glut of spare cash in dollar funding markets and whether the usage of the Fed's facility resumes its upward trajectory (after slipping on Friday) is set to be a key focus for traders in the coming week along with crucial US jobs data.

Bond traders are keenly attuned to the build-up of dollars in short-term interest-rate markets, an overabundance reflected in the amount of money sitting and earning nil at the Fed's reverse repo facility. For some traders, it is another sign that the Fed's quantitative easing program should be dialled back from its current pace of \$120 billion a month.

Foreign Exchange: The Australian dollar slipped

from a high of 0.7747 against the US dollar to a low of 0.7677 before recovering some of its losses. The Australian dollar remains within a broader trading range it has been in since the middle of April of 0.7675-0.7890.

The appreciation of the Chinese yuan against the US dollar is being eyed more closely. A former Chinese central bank official, Sheng Songcheng, said the appreciation probably won't last, calling the trade overbought. Separately, the People's Bank of China-backed Financial News said in an editorial Sunday that the yuan may depreciate in future due to factors such as potential tightening by the US Federal Reserve if inflation keeps beating expectations.

Commodities: Oil slipped, but other commodities mostly rose in Friday's trading session.

COVID-19: Victoria's Acting Premier James Merlino yesterday unveiled a \$250.7 million Circuit Breaker Business Support package to support Victorian businesses. The package will target 90,000 businesses affected by the seven-day lockdown – the first since JobKeeper was wound back at the end of March. Under the scheme, grants of \$2,500 will be available for eligible small to medium-sized businesses and sole traders. Hospitality venues with a liquor licence and food certificate will be eligible for a \$3,500 grant per premises. Merlino also flagged \$20 million to support operators in the

event industry. The number of infections in Victoria has risen to 35 on the latest numbers.

Australia: There was no major economic data released on Friday.

United States: Personal income tumbled in April as the prior month's boost from stimulus cheques waned and inflation ran hotter than expected. Personal income declined 13.1% in April, after surging by a record 20.9% in March (revised down from the previous estimate). Consumer spending, which accounts for two-thirds of economic activity, edged up 0.5%, after a gain of 4.7% in March.

The core personal consumption expenditure deflator, which is closely watched by the US Federal Reserve, rose 0.7% in April and by 3.1% in the year to April. The improvement reflected both reduced imports and a rise in exports, but the deficit remains historically large.

The Chicago purchasing managers' index (PMI) rose from 72.1 in April to a near 48-year high of 75.2 in May, beating market expectations. New orders also hit a near 40-year high, which suggests activity in the pipeline will continue to be robust. But the survey noted considerable supply chain and pricing pressures.

The University of Michigan consumer sentiment final index for May was little changed at 82.9. The preliminary reading was 82.8. There was a slight fall in current conditions offset by a rise in expectations. Inflation expectations remained high; the 1-year ahead index was 4.6%. However, there was a slight moderation in the more important 5-10-year ahead measure to 3.0%.

US President Biden issued his first full budget proposal, containing more than \$6 trillion in spending over the next fiscal year. Large scale new spending would be paired with significant tax increases on corporations and the wealthy. Enacting this into law will be difficult. Republicans are almost uniformly opposed to much of the spending and the tax increases.

Today's key data and events:

JN Industrial Production Apr exp 4.0% prev 1.7% (9:50am)
 JN Retail Sales Apr exp -1.5% prev 1.2% (9:50am)
 JN Consumer Confidence May exp 33.3 prev 34.7 (9:50am)
 CH Non Mfg PMI May exp 55.0 prev 54.9 (11:00am)
 CH Manufacturing PMI May exp 51.1 prev 51.1 (11:00am)
 NZ ANZ Business Confidence May prev 7.0 (11:00am)
 AU MI Inflation May y/y prev 2.3%(11:00am)
 AU Private Sector Credit Apr exp 0.4% prev 0.4% (11:30am)
 EZ M3 Money Supply Apr exp 9.8% prev 10.1% (6:00pm)
 UK and US markets closed

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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