

Morning Report

Wednesday, 3 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	6,762	-0.4%			Last	Overnight Chg			Australia		
US Dow Jones	31,392	-0.5%	10 yr bond		98.32	0.03			90 day BBSW	0.03	0.00
Japan Nikkei	29,408	-0.9%	3 yr bond		99.71	-0.01			2 year bond	0.12	0.00
China Shanghai	3,678	-1.2%	3 mth bill rate		99.97	-0.01			3 year bond	0.12	0.00
German DAX	14,040	0.2%	SPI 200		6,744.0	22			3 year swap	0.29	0.02
UK FTSE100	6,614	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.72	0.05	
Commodities (close & change)*			TWI		63.9	-	-	64.1	United States		
CRB Index	190.0	0.6	AUD/USD		0.7778	0.7838	0.7736	0.7828	3-month T Bill	0.04	0.00
Gold	1,733.22	8.2	AUD/JPY		83.09	83.64	82.63	83.56	2 year bond	0.12	0.00
Copper	9,195.25	133.3	AUD/GBP		0.5587	0.5611	0.5572	0.5605	10 year bond	1.40	-0.01
Oil (WTI)	59.63	-1.0	AUD/NZD		1.0699	1.0783	1.0677	1.0723	Other (10 year yields)		
Coal (thermal)	83.35	0.6	AUD/EUR		0.6457	0.6489	0.6437	0.6475	Germany	-0.35	-0.02
Coal (coking)	130.70	-0.4	AUD/CNH		5.0316	5.0731	5.0128	5.0666	Japan	0.13	-0.03
Iron Ore	168.81	1.2	USD Index		91.1	91.4	90.7	90.8	UK	0.69	-0.07

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: Share markets were mixed. The US bond market settled down and the US dollar was weaker.

Share Markets: US markets slipped in late trade overnight. The Dow fell 0.5%, the S&P500 was down 0.4% and the Nasdaq declined 1.7%. European markets were up with the FTSE100 up 0.4% and the Dax up 0.2%. The futures market points towards a modestly positive start to Australian trade.

Interest Rates: Australian government 10-year bond yields moved 5 basis points higher to 1.72% yesterday despite comments from the Reserve Bank regarding its bond purchase intentions. US long bonds edged 1 basis point lower to 1.41%. The shorter end of the yield curve was broadly stable although Australian 3-year swap rates rose 2 basis points to 0.29%.

Foreign Exchange: The US dollar index slipped from 91.1 to 90.8 assisting the AUD to push well into the US 78 cent range. The AUD gained against the NZD as Australian commodity prices remained firm.

Commodities: Oil slipped below \$US60 per barrel but copper, iron ore and gold all edged higher.

COVID-19: Daily US cases of COVID-19 have dropped below 50,000 for the first time since October.

Australia: Yesterday was a busy for data releases. The Reserve Bank (RBA) Board met and reiterated

that it does not expect to lift the cash rate until 2024 at the earliest. The RBA left the parameters of the yield curve control and their bond purchase programs unchanged.

There has been speculation amongst investors over recent weeks that the RBA could increase the cash rate sooner than 2024 but Governor Lowe hosed down any such prospects in his statement.

The Governor's statement reaffirmed the Bank's commitment to the three-year yield target and quantitative easing program. The statement noted the RBA is prepared to make further adjustments to its purchases in response to market conditions.

Building approvals fell 19.4% in January after a run of strong growth and are now slightly below their pre-COVID peak. Approvals are still up 19.0% over the year.

Approvals for private houses declined by 12.2% in January, after hitting a record level in December, but are 38.0% higher over the year. Approvals for multi-density dwellings (i.e. apartments and townhouses) fell 39.5% in January, reaching their lowest level since 2012.

We see the decline in building approvals this month as largely transitory. It was driven by an unwinding of the bring-forward of approvals ahead of the tapering of HomeBuilder on 31 December (from \$25,000 to \$15,000).

The balance of payments was also published yesterday. Export volumes increased by 3.8% in the quarter and imports rose 4.9%. Meanwhile, the terms of trade rose 4.8% in the quarter.

Government statistics data showed government consumption rose 1.1% and government investment lifted 2.4% in the December quarter.

Yesterday's data wraps up the partial economic indicators available ahead of the GDP release later today. We expect GDP will show the economic recovery continued in the December quarter, aided by the easing of restrictions and Victoria emerging from its second lockdown. Our GDP forecast is for growth of 2.5% in the December quarter. In year-on-year terms, we expect the economy shrank 1.8%. There is more uncertainty than usual around forecasts, but the balance of risks suggests a result to the upside closer to 3.0% is not to be ruled out.

Eurozone: CPI inflation remains muted in Europe rising 0.2% in February for an annual rate of just 0.9%. The annual pace of core inflation was similarly weak at 1.1%.

United Kingdom: According to Nationwide, house prices in the UK rose 6.6% in the 12 months to February, slightly up on the 6.4% pace seen in January. Nationwide reports that the average house price in the UK is now £231k.

United States: No major data was released in the US overnight.

In a speech last night, Federal Reserve Governor Lael Brainard said it will take "some time" to meet the conditions for economic progress laid out by the US central bank for reducing the pace of its massive asset purchases, while noting recent bond market volatility could cause further delay.

"I am paying close attention to market developments," she said last night in response to a question after giving the speech. "Some of those moves last week, and the speed of the moves, caught my eye," she said, adding that she would be concerned if she saw disorderly conditions, or persistent tightening in financial conditions, that could stall the economy's gains toward maximum employment and sustained 2% inflation.

Today's key data and events:

AU AiG Perf of Construction Index Feb prev 57.6 (8:30am)

NZ Building Permits Jan prev 4.9% (8:45am)

AU Weekly Payroll Jobs & Wages w/e Feb 13 (11:30am)

AU GDP (11:30am)

q/q exp 2.5% prev 3.3%

y/y -1.8% prev -3.8%

CH Caixin Services PMI Feb prev 52.0 (12:45pm)

EZ Producer Prices Index Jan y/y prev -1.1% (9pm)

US ADP Employment Feb prev 174k (12:15am)

US ISM Non Mfg Index Feb exp 58.1 prev 58.7 (2am)

US Federal Reserve Beige Book (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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