

Thursday, 4 February 2021

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|----------------------|-------|
| S&P/ASX 200 | 6,825 | 0.9% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 30,775 | 0.3% | 10 yr bond | 98.81 | | | -0.01 | 90 day BBSW | 0.01 | 0.00 |
| Japan Nikkei | 28,647 | 1.0% | 3 yr bond | 99.83 | | | 0.00 | 2 year bond | 0.11 | 0.00 |
| China Shanghai | 3,687 | -0.5% | 3 mth bill rate | 99.98 | | | -0.01 | 3 year bond | 0.11 | 0.00 |
| German DAX | 13,934 | 0.7% | SPI 200 | 6,757.0 | | | -20 | 3 year swap | 0.14 | -0.01 |
| UK FTSE100 | 6,508 | -0.1% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 1.17 | 0.02 |
| Commodities (close & change)* | | | TWI | | 62.8 | - | - | 62.7 | United States | |
| CRB Index | 179.0 | 1.0 | AUD/USD | 0.7597 | 0.7626 | 0.7595 | 0.7620 | 3-month T Bill | 0.04 | -0.01 |
| Gold | 1,832.71 | -5.3 | AUD/JPY | 79.79 | 80.13 | 79.78 | 80.05 | 2 year bond | 0.12 | 0.00 |
| Copper | 7,851.50 | 67.0 | AUD/GBP | 0.5562 | 0.5590 | 0.5561 | 0.5589 | 10 year bond | 1.13 | 0.03 |
| Oil (WTI) | 55.67 | 0.9 | AUD/NZD | 1.0612 | 1.0616 | 1.0541 | 1.0583 | Other (10 year yields) | | |
| Coal (thermal) | 79.60 | -2.4 | AUD/EUR | 0.6311 | 0.6343 | 0.6310 | 0.6337 | Germany | -0.46 | 0.03 |
| Coal (coking) | 149.14 | -2.9 | AUD/CNH | 4.9062 | 4.9280 | 4.9050 | 4.9219 | Japan | 0.06 | 0.00 |
| Iron Ore | 146.92 | 2.5 | USD Index | 91.1 | 91.3 | 91.0 | 91.2 | UK | 0.37 | 0.02 |

Data as at 7:10am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Encouraging earnings reports in the US and stronger-than-expected US data helped support a lift in US share markets and bond yields.

Share Markets: US share markets are currently trading higher, underpinned by expectations of further government stimulus and encouraging earnings reports, including from Google's parent company Alphabet Inc. The S&P 500 index is currently up 13 points (or +0.3%), the Dow is up 82 points (or +0.3%) and the Nasdaq is 45 points higher (or +0.3%).

Interest Rates: US bond yields at the longer end of the curve moved higher, helped by a batch of stronger-than-expected US economic data. The US 10-year yield has currently added 3 basis points. The US 2-year yield is currently unchanged from yesterday's close.

Foreign Exchange: The AUD/USD traded in a very tight range overnight of around 0.7600-0.7625. The AUD/USD appears to be consolidating, after taking a big move down earlier this week from above 0.7700 to a low of 0.7564 early on February 3. Elevated iron ore prices are continuing to provide underlying support for the Australian dollar.

In other currencies, EUR/USD fell to a fresh two-month low of 1.2004 in overnight trade, weighed down by a slower rollout of vaccines and mixed economic data.

Commodities: OPEC pledged to keep pushing to quickly clear the oil surplus, stressing "the importance of accelerating market re-balancing without delay." In its communique, OPEC members seemed closely aligned on the merits of keeping a tight leash on supplies. Separately, data from the Energy Information Administration (EIA) in the US showed crude stockpiles fell by 994,000 barrels, a much smaller than expected draw. Oil gained, with New York futures surging to the highest in more than a year and piercing US\$56 per barrel. Oil is currently trading at just below US\$56 a barrel.

COVID-19: The Victorian government from midnight last night reintroduced mandatory mask rules, reduced the cap on visitors in homes (to 15) and paused an increase in the number of people allowed in offices after a hotel quarantine worker contracted COVID-19.

In other news, Glaxo and CureVac will team up to work on new mRNA vaccines capable of fighting emerging variants. They aim to have a candidate approved by 2022.

Australia: Building approvals rose 10.9% in December. This comes on top of a surge in activity in the previous three months. Approvals are up 22.8% on a year earlier. Approvals of private-sector houses rose 15.8% in the month to be up 55.6% over the year. December private-sector house

approvals are at an all-time high of 13.6k.

The December building approvals results point towards ongoing construction work in 2021. It should boost employment numbers, lift government tax revenue and possibly result in a rise in wages.

During a speech at the National Press Club, Reserve Bank Governor Lowe pressed home his view that “there is still quite a way to go before we reach our goals of full employment and inflation consistent with the targets.”

China: The Caixin Composite purchasing managers’ index (PMI) slipped back in January, falling to 52.2 from 55.8 in December. While still above 50, it was the second consecutive month of decline. The services PMI also fell back declining from 56.3 in December to 52.0 in January.

Europe: Consumer prices rose 0.2% in January and the annual rate improved from a contraction of 0.3% in December to a rise of 0.9% in January. Core inflation also improved, from annual growth of 0.2% in December to 1.2% in January. The inflation outcomes beat market expectations and reflected an end to a sales tax holiday in Germany and a delay to winter clothing sales in France. The data does not suggest a real upturn in underlying price pressures. Policymakers will remain concerned about the persistence of very low inflation.

Mario Draghi agreed to try to form an Italian government. The former Chief of the European Central Bank took on the task after meeting President Sergio Mattarella. Draghi will sound out political party leaders as he seeks to forge a broad parliamentary majority.

New Zealand: The unemployment rate fell to 4.9% in the December quarter, down from 5.3% in the September quarter. Employment rose 0.7% or 17k in the December quarter, the first increase in three quarters, while the participation rate rose to 70.2%. Private sector wages rose 1.5% over 2020.

United States: US companies added more jobs than forecast in January, a sign that the labour market may be gradually improving as Covid-19 infections begin to ebb. Company payrolls increased by 174,000 during January, according to ADP data. The media consensus projection had been for an increase of 70,000. The prior month was revised up to a 78,000 decline.

The ISM manufacturing index lifted from 57.7 in December to 58.7 in January. The result beat market consensus expectations and was the highest result since February 2019. The employment

component rebounded into expansion territory at 55.2 from 48.7, and new orders rose to 61.8 from 58.6, while export orders fell to 47.0 from 57.3. Optimism is rising with the vaccine rollout and preparations for further fiscal stimulus.

News reports overnight suggested US President Joe Biden will not compromise on providing \$1,400 checks in his stimulus package, but told House Democrats he's willing to tighten the eligibility standards for the payments.

Today's key data and events:

NZ Building Permits Dec prev 1.2% (8:45am)
 US Federal Reserve's Mester Speaking (9am)
 NZ Business Confidence Feb prev 9.4 (11am)
 AU Trade Balance Dec exp \$7.7bn prev \$5.0bn (11:30am)
 AU NAB Business Survey Q4 (11:30am)
 EZ Retail Sales Dec exp 2.8% prev -6.1% (9pm)
 UK BoE Monetary Policy Committee Meeting (11pm)
 Bank Rate exp 0.10% prev 0.10%
 Asset Purchase Target exp £875bn prev £875bn
 Corporate Bond Target exp £20bn prev £20bn
 US Initial Jobless Claims w/e 30 Jan exp 830k prev 847k (12:30am)
 US Factory Orders Dec exp 0.7% prev 1.0% (2am)
 US Durable Good Ord. Dec Final exp 0.2% prev 0.2% (2am)

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.

Besa Deda, Chief Economist
 Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda

dedab@banksa.com.au

(02) 8254 3251

Senior Economist

Hans Kunnen

hans.kunnen@banksa.com.au

(02) 8254 1316

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