

# Morning Report

Wednesday, 5 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,068	0.6%			Last	Overnight Chg		Australia			
US Dow Jones	34,133	0.1%	10 yr bond		98.31	0.02		90 day BBSW	0.04	0.00	
Japan Nikkei	28,813	Closed	3 yr bond		99.73	0.00		2 year bond	0.08	0.00	
China Shanghai	3,613	-0.8%	3 mth bill rate		99.96	0.00		3 year bond	0.31	0.02	
German DAX	14,856	-2.5%	SPI 200		7,009.0	-26		3 year swap	0.33	0.00	
UK FTSE100	6,923	-0.7%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	1.76	0.01
Commodities (close & change)*			TWI		64.1	-	-	64.3	United States		
CRB Index	202.4	1.6	AUD/USD		0.7763	0.7767	0.7706	0.7712	3-month T Bill	0.01	0.00
Gold	1,779.06	-13.8	AUD/JPY		84.69	84.75	84.32	84.32	2 year bond	0.16	0.00
Copper	9,833.00	-60.5	AUD/GBP		0.5580	0.5591	0.5566	0.5554	10 year bond	1.59	-0.01
Oil (WTI)	65.69	1.2	AUD/NZD		1.0775	1.0790	1.0752	1.0789	Other (10 year yields)		
Coal (thermal)	90.40	-0.5	AUD/EUR		0.6435	0.6438	0.6406	0.6420	Germany	-0.24	-0.03
Coal (coking)	111.17	-0.3	AUD/CNH		5.0235	5.0262	4.9941	5.0005	Japan	0.10	Closed
Iron Ore	184.50	-1.3	USD Index		91.0	91.4	90.9	91.3	UK	0.80	-0.05

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:** No surprises from Reserve Bank yesterday with policy settings unchanged. US and European equities were dragged lower by a selloff in tech stocks and comments from US Treasury Secretary Yellen on interest rates.

**Share Markets:** A rout in tech stocks and comments from US Treasury Secretary Yellen sent the Nasdaq down 1.9% and the S&P 0.7% lower while the Dow finished up 0.1%. Yellen said that rates may have to rise modestly at some point to prevent the economy overheating. And while obvious, it nonetheless rattled markets. Yellen later clarified she was not predicting or recommending rate hikes.

In Europe, the Dax closed down 2.5%. The ASX 200 was up 0.6% although futures point to a soft open.

**Interest Rates:** The Australian 3-year government bond yield ticked up 2 basis points to 0.31% following the as-expected RBA decision. The Australian 10-year drifted up 1 basis point to 1.76%.

**Foreign Exchange:** The Australian dollar depreciated over the session, touching a low of 0.7706 before partly retracing to 0.7712. The US dollar strengthened.

**Commodities:** Oil rose to its highest price since mid-March on optimism over global growth. Gold and iron ore fell.

**Australia:** The Reserve Bank delivered no surprises yesterday, leaving policy settings unchanged. It reiterated it does not anticipate lifting the cash rate

before 2024 because it does not expect actual inflation to be sustainably within its 2–3 per cent target band before then.

However, the RBA made a tweak to its language to acknowledge the slight possibility of a rate hike before 2024. In earlier statements, the RBA said “it did not expect” conditions to be met to hike the cash rate before 2024. In today’s statement, the RBA said it was “unlikely” this would be until 2024.

The RBA also now expects underlying inflation to hit 2 per cent in mid-2023, sooner than previously anticipated.

The stronger inflationary pressures tie in with the stronger growth trajectory the RBA has outlined. GDP growth is now forecast to be 4¾ per cent over 2021, well above trend and up from 3½ per cent expected previously. Growth for 2022 is unchanged at 3½ per cent.

The faster pace of growth is set to help hasten the jobs recovery. The RBA has revised down its unemployment forecasts. It now expects an unemployment rate of 5 per cent by the end of this year and 4½ per cent at the end for 2022.

This has not changed our view that the cash rate will not be lifted before 2024.

For bond markets, the July board meeting will be an important date. The RBA has drawn a line in the sand and said it will decide at this meeting if it will direct its yield-curve control (YCC) target from the

April 2024 bond to November 2024 (the next maturity). We are expecting the shift to November to materialise.

And in a widely expected move, the RBA said the Term Funding Facility will not be extended. It will expire on 30 June 2021.

The RBA was mum on housing risks, choosing to roll out similar remarks to April. Yesterday's data showed investor lending growth was the fastest in nearly 18 years in March, which is sure to have regulators monitoring housing even more closely.

New lending jumped in March as the housing market continued to run red hot. The value of new loans excluding refinancing rose 5.5% in the month. Housing loan commitments are now up a stunning 85.1% from their low in May 2020 and are sitting well above their pre-COVID peak.

What is most striking about today's data is the 12.7% increase in lending to investors in March. This is the strongest monthly growth rate since July 2003 – almost 18 years! The prospect of capital gains and the fear of missing out after remarkable price growth over recent months may be tempting investors. In addition, rental conditions in capital cities have tightened.

However, new lending to owner occupiers still well above new lending to investors. Lending to owner occupiers increased 3.3% in March.

Construction-related lending appears to have passed its peak, declining 14.5% in March after eight consecutive months of gains. This category has been bolstered by the HomeBuilder scheme, which ended in March.

The proportion of first-home buyers among owner occupiers declined, possibly reflecting that affordability is starting to become stretched.

Australia's trade surplus narrowed to \$5.6 billion in March, well below the market median of \$8.3 billion.

Imports strengthened, up 4.3%, underpinned by a burst of demand ahead of the Easter-holiday period.

Export earnings disappointed, declining by 1.7% in the month. Resource exports slipped, down by 3.0% in March, which included a 25% moderation in gold exports. Metal ores lifted by \$0.3 billion to hold near a record high of \$15.4 billion, and accounting for 40% of total exports. Coal exports were hit by severe flooding in NSW during March, declining by 11%.

**New Zealand:** House prices rose at a 18.4% clip in

the year to April, up from 16.4% in March, according to the latest CoreLogic data.

**United States:** The US trade deficit widened to a record \$74.4 billion in March, in line with forecasts. Imports rose 6.3% in the month supported by fiscal stimulus and demand from American consumers stuck at home. Exports climbed 6.6%.

Meanwhile factors orders rose 1.1% in March after declining 0.5% in February. Durable goods orders climbed 0.8% after slumping in February alongside harsh winter weather.

#### Today's key data and events:

AU Perf of construction Index Apr prev 61.8 (8:30am)  
 NZ Unemployment Rate Q1 exp 4.9% prev 4.9% (8:45am)  
 NZ Employment Change Q1 exp 0.3% prev 0.6% (8:45am)  
 AU Building Approvals Mar exp 3.0% prev 21.6% (11:30am)  
 EZ Producer Price Index Mar exp 1.1% prev 0.5% (7pm)  
 US ADP Employment Chg Apr exp 873k prev 517k (10:15pm)  
 US ISM Services Index Apr exp 64.2 prev 63.7 (12am)

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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