

Morning Report

Thursday, 6 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,096	0.4%			Last	Overnight Chg		Australia			
US Dow Jones	34,230	0.3%	10 yr bond		98.35	0.03		90 day BBSW	0.04	0.00	
Japan Nikkei	28,813	Closed	3 yr bond		99.73	0.00		2 year bond	0.09	0.00	
China Shanghai	3,613	-0.8%	3 mth bill rate		99.95	-0.01		3 year bond	0.32	0.01	
German DAX	15,171	2.1%	SPI 200		7,072.0	5		3 year swap	0.33	0.00	
UK FTSE100	7,039	1.7%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	1.74	-0.02
Commodities (close & change)*			TWI		64.3	-	-	64.2	United States		
CRB Index	204.1	1.7	AUD/USD		0.7712	0.7755	0.7704	0.7746	3-month T Bill	0.01	0.00
Gold	1,786.87	7.8	AUD/JPY		84.32	84.69	84.26	84.58	2 year bond	0.15	-0.01
Copper	9,973.00	140.0	AUD/GBP		0.5554	0.5575	0.5544	0.5571	10 year bond	1.57	-0.03
Oil (WTI)	65.63	-0.1	AUD/NZD		1.0789	1.0791	1.0734	1.0739	Other (10 year yields)		
Coal (thermal)	90.85	0.4	AUD/EUR		0.6420	0.6459	0.6417	0.6452	Germany	-0.23	0.01
Coal (coking)	111.83	0.7	AUD/CNH		5.0005	5.0277	4.9988	5.0255	Japan	0.10	Closed
Iron Ore	185.20	-1.7	USD Index		91.3	91.4	91.2	91.3	UK	0.82	0.02

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: Risk sentiment improved overnight as Fed officials continued to downplay inflation risks. Equities and the Australian dollar strengthened.

Share Markets: Equities were mostly higher on solid earnings and Fed officials continuing to play down concerns over higher inflation.

The Dow was up 0.3%, the Dax jumped 2.1% and the ASX 200 climbed 0.4%.

Interest Rates: US 10-year bond yields slipped 3 basis points to 1.57% while Australian 10-year yields ticked down 2 basis points.

Meanwhile, the five-year breakeven rate, a proxy for the annual inflation rate bond traders expect over the span, hit 2.7%, its highest level since 2008. The debate over the path of inflation continues to rage, as Fed officials stick to their line that price pressures will be temporary while many in the market argue otherwise.

Foreign Exchange: The Australian dollar lifted to 0.7746, sticking to the range over recent weeks. The US dollar index traded in a narrow range and finished unchanged.

Commodities: WTI crude oil and iron ore edged lower while gold firmed.

Australia: A man in NSW tested positive for COVID-19 after contracting it locally. The source of the infection is unknown and further cases are expected. Venues across Sydney have been put on

alert.

Markets will be eyeing a speech from Reserve Bank Governor Debelle this evening on 'Monetary Policy During Covid'.

Data yesterday showed building approvals have continued to climb, jumping 17.4% in March. Total building approvals are now at their second highest level on record, exceeded only by November 2017.

The pick up was driven largely by a 63.6% surge in approvals for private multi-density dwellings (i.e. apartments and townhouses), especially in NSW and Victoria.

The ongoing strength in building approvals points to a solid construction pipeline. This is good news as we emerge from the COVID-19 recession as it will bolster jobs growth.

Private sector house approvals edged up marginally to a new record high and are now up 60.9% over the year.

We expect solid underlying momentum in building approvals over the rest of the year, underpinned by historically low interest rates and the ongoing economic recovery. However, there may be transitory weakness in approvals in the months ahead following the expiry of HomeBuilder in March.

The AiG Construction Index declined to 59.1 in April, coming off a record high of 61.8 in March. The index is still in strongly expansionary territory – a reading

over 50 implies positive growth.

New Zealand: The unemployment rate fell to 4.7% from 4.9% in the March quarter, beating economist's expectations. Employment also rose by more than expected, up 0.6%. Despite the improvement, there is still some way to go before a sustained lift in wage and price pressures is expected.

India: The Reserve Bank of India announced a slew of new loan relief measures and liquidity support in an unscheduled announcement. The policies have been introduced in response to the severe COVID-19 crisis unfolding in India. The measures include the next round of bond purchases under quantitative easing, a new term liquidity facility to support credit to the healthcare sector and relaxation of regulations around non-performing loans.

Europe: The producer price index rose 1.1% in March to be up 4.3% over the year. The acceleration was underpinned by increases for energy and intermediate goods. Changes in prices at factory gates are usually transmitted to consumers and therefore suggest a pick up in CPI. The European Central Bank has predicted the surge, but the same as other central banks, has promised to look through temporary spikes in inflation in setting policy.

United States: A bevy of Fed officials reiterated the central bank is not concerned about inflation. Chicago Fed President Evans, Cleveland Fed President Mester and Boston Fed President Rosengren all made comments which underscored that price increases are unlikely to get out of control despite unprecedentedly stimulus.

The ADP jobs report showed that 742k jobs were added in March, up from February but below expectations of 850k new jobs.

The ISM services index pulled back to 62.7 from 64.1, although this still represents a strong rate of expansion. Underlying the headline index, new orders dipped, while exports and employment were firmer.

Today's key data and events:

NZ Building Permits Mar prev -18.2% (8:45am)
 NZ ANZ Business Confidence May (11:00am)
 CH Caixin Services PMI Apr exp 54.2 prev 54.3 (11:45am)
 EZ Ger. Factory Orders Mar (4:00pm)
 AU RBA's Debelle Speech (7:00pm)
 EZ Retail Sales Mar prev 3.0% (7:00pm)
 UK BoE Policy Decision (9:00pm)
 Bank Rate exp 0.10% prev 0.10%
 UK Markit/CIPS Services PMI Apr final prev 60.1 (6:30pm)

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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