

Thursday, 8 April 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,928	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	33,446	0.0%	10 yr bond	98.28		0.00		90 day BBSW	0.04	0.01
Japan Nikkei	29,731	0.1%	3 yr bond	99.75		0.00		2 year bond	0.08	0.00
China Shanghai	3,647	-0.1%	3 mth bill rate	99.95		0.00		3 year bond	0.27	-0.01
German DAX	15,176	-0.2%	SPI 200	6,935.0		36		3 year swap	0.31	0.00
UK FTSE100	6,885	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.75	-0.03
Commodities (close & change)*			TWI	64.0	-	-	64.0	United States		
CRB Index	186.3	0.5	AUD/USD	0.7664	0.7677	0.7601	0.7609	3-month T Bill	0.01	-0.01
Gold	1,737.72	-5.5	AUD/JPY	84.11	84.25	83.49	83.59	2 year bond	0.15	0.00
Copper	8,924.50	-135.0	AUD/GBP	0.5543	0.5554	0.5512	0.5538	10 year bond	1.67	0.02
Oil (WTI)	59.77	0.4	AUD/NZD	1.0857	1.0866	1.0837	1.0857	Other (10 year yields)		
Coal (thermal)	88.50	-1.6	AUD/EUR	0.6453	0.6463	0.6406	0.6411	Germany	-0.32	-0.01
Coal (coking)	118.00	0.7	AUD/CNH	5.0145	5.0224	4.9794	4.9824	Japan	0.10	-0.01
Iron Ore	164.61	3.0	USD Index	92.3	92.5	92.1	92.4	UK	0.77	-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: The US Federal Reserve minutes dominated action in financial markets overnight.

Share Markets: US share markets rose after minutes from the last Federal Reserve meeting suggested it would be “some time” before conditions are met for a scaling back of the Fed’s bond-buying program. The S&P 500 index added 6 points (or +0.2%) to hit a new all-time high. The Dow rose 16 points (or +0.1%). However, the Nasdaq retreated 9 points (or -0.1%).

Volumes on US share market exchanges also hit a new low for this year.

Interest Rates: The US 2-year bond yield was flat overnight while the 10-year yield added 2 basis points.

Foreign Exchange: The US dollar strengthened overnight against the major currencies. The Australian dollar weakened towards the 76 US cent handle.

Commodities: Commodities were mixed overnight.

COVID-19: UK and EU drug regulators confirmed at press briefings overnight that there is a link between AstraZeneca’s shot and a rare type of blood clot in the brain. UK health authorities are now advising that those under the age of 30 be offered an alternative vaccine if available. The WHO weighed in, saying causal ties between the Astra shot and clots are “plausible,” but not confirmed.

Australia: AiG’s construction index rose to 61.8 in March, a record high. A level above 50 indicates growth is likely in construction. Construction activity is being driven by the HomeBuilder program, low interest rates and shifts towards detached housing and regional areas.

Markit’s services purchasing managers’ index (PMI) indicates that services continued to expand in March with a print of 55.5, up from 53.4 in February. Markit’s composite PMI also climbed to 55.5 in March as well.

Europe: The final services and composite PMI readings for March were revised higher. The composite index was revised to 53.2, from the preliminary estimate of 52.5. The services index was upgraded to 49.6, from 48.8. The services PMI has been under the 50.0 level since February of 2020.

UK: In contrast to the Eurozone final readings, the final services and composite PMI readings in the UK were revised lower. The services PMI was downgraded half a point to 56.3 in March and the composite PMI was revised 0.2 points lower to 56.6.

United States: The Federal Open Market Committee (FOMC) released minutes from the March 16-17 meeting. Investors were looking for indications about where policy may be heading in the future.

The minutes indicated that officials needed to see

much more progress before ultra-easy policy changes. Indeed, the FOMC thinks it'll "likely be some time" before the economy recovers enough to begin tapering, minutes from last month's meeting show.

Officials warned that the committee must clearly communicate when it can begin scaling back the central bank's massive asset-purchase campaign to avoid any fallout. Interest-rate futures have been pricing in the probability of a rate hike in the second half of 2022, well in advance of what the Fed so far has indicated.

The minutes stressed that policy will only change once outcomes are achieved and won't be adjusted based on forecasts.

The FOMC raised its economic forecasts. The median outlook for GDP in 2021 went to 6.5%, a big upgrade from the 4.2% expectation in the December projections. Fed officials also indicated that the unemployment rate could to 4.5% by the end of the year and inflation could run to 2.2%, slightly above the Fed's 2% target.

Though inflation showed up 64 times in the minutes, Fed officials indicated little concern that inflation might become a problem anytime soon.

During a meeting with the media ahead of the release of the minutes, Chicago Federal Reserve President Charles Evans said it would take "months and months" of higher inflation "before I'm even going to have an opinion on whether this is sustainable or not". He also reiterated that rising bond yields is a sign of economic optimism.

Heading into the March FOMC meeting, some market participants were expecting the Fed to at least alter the duration of the bonds it has been buying to tamp down a sharp rise in bond yields at the longer end of the yield curve. However, Fed Chairman Jerome Powell said they view the rise in bond yields as a reflection of stronger growth expectations rather than sustained inflation pressures.

The Federal Reserve President of Dallas – Robert Kaplan – also gave remarks overnight. He said inflation will rise "well in excess" of 2.5% before settling back.

Finally, Federal Reserve Governor Lael Brainard told CNBC that inflation pressures from the reopening are "transitory."

In other news, the US Treasury Secretary Janet Yellen unveiled her sales pitch for Joe Biden's corporate tax hikes, saying they'd take in \$2.5

trillion over 15 years to fund the president's infrastructure and green investment plan. "Our tax revenues are already at their lowest levels in generations," Yellen said. "As they continue to drop lower we will have less money to invest in roads, bridges, broadband and R&D." The department released a report to serve as a road map as the White House and lawmakers try to navigate the package through Congress with little or no Republican support.

Globally, the drive to overhaul taxes for companies gathered more steam after G-20 finance chiefs pledged to reach a consensus on new rules by the middle of the year. The ministers and central bankers said they're committed to "reaching a global and consensus-based solution" on a minimum global corporate rates structure and how to levy the profits of multinational technology giants.

On the data front, the US trade deficit surged by \$3.3 billion to a new record high of \$71.1 billion in February, as economic activity rebounded more quickly than anticipated. The lift in activity flowed through to a rise in the US import bill.

Today's key data and events:

JN Current Account Feb prev ¥646.8bn (9:50am)

NZ ANZ Business Confidence Apr (11:00am)

EZ Germany Factory Orders Feb prev 1.4% (4:00pm)

EZ PPI Feb y/y prev 0.0% (7:00pm)

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

Economist

Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

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