

Morning Report

Monday, 8 February 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,841	1.1%	Last		Overnight Chg			Australia		
US Dow Jones	31,148	0.3%	10 yr bond	98.75	-0.05			90 day BBSW	0.01	0.00
Japan Nikkei	28,779	1.5%	3 yr bond	99.83	0.00			2 year bond	0.11	0.00
China Shanghai	3,665	-0.2%	3 mth bill rate	99.99	0.00			3 year bond	0.11	0.00
German DAX	14,057	0.0%	SPI 200	6,778.0	5			3 year swap	0.14	-0.01
UK FTSE100	6,489	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.19	-0.04
Commodities (close & change)*			TWI	62.9	-	-	62.8	United States		
CRB Index	181.4	1.1	AUD/USD	0.7602	0.7679	0.7583	0.7663	3-month T Bill	0.02	-0.01
Gold	1,814.11	20.1	AUD/JPY	80.23	80.92	80.04	80.73	2 year bond	0.10	-0.01
Copper	7,922.00	95.5	AUD/GBP	0.5560	0.5591	0.5548	0.5585	10 year bond	1.16	0.02
Oil (WTI)	56.85	0.6	AUD/NZD	1.0620	1.0665	1.0613	1.0663	Other (10 year yields)		
Coal (thermal)	82.75	3.2	AUD/EUR	0.6354	0.6373	0.6344	0.6360	Germany	-0.45	0.01
Coal (coking)	151.00	0.9	AUD/CNH	4.9215	4.9596	4.9160	4.9522	Japan	0.06	0.00
Iron Ore	150.89	-1.8	USD Index	91.5	91.6	91.0	91.0	UK	0.48	0.04

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 jobs report and US stimulus talks took centre stage on Friday. The jobs numbers were weaker than expected and included downward revisions to earlier months. Markets now anticipate that the jobs data makes it more likely that more government stimulus will happen.

US Treasury Secretary Janet Yellen hit the talk shows on the weekend, after the markets closed, pushing the Biden's administration's \$1.9 trillion relief bill. Markets are likely to react to her remarks on the open today.

Share Markets: US share markets climbed on Friday on optimism that stimulus had a better change of passing after a weaker-than-expected payrolls report. The S&P 500 added 15 points (or+0.4%) and hit a new record high. The Dow firmed 92 points (or +0.3%).

Interest Rates: The US two-year bond yield fell 1 basis point to 0.10% and the 10-year bond yield rose 2 basis points to 1.16%. During trade, the US 10-year yield had struck a one-month high of 1.19%.

Foreign Exchange: The US dollar index weakened through the Friday night session, underpinned by an underwhelming payrolls report. The broad-based sell off in the US dollar helped the AUD/USD exchange rate to rise from an overnight low of under 0.7600 to an overnight high of 0.7679.

Commodities: Commodity prices were mostly

firmer on Friday, despite the US jobs data.

Australia: The pandemic over 2020 led Australians to rethink the way they work, live and learn. It led to some existing consumer trends accelerating and new trends emerging. These included accelerated growth in online spending, the shift to eating in more and the shifts to the "caring" and "homebody" economy. During the latter half of 2020, consumer sentiment improved and some of these trends were pared back.

As 2020 progressed, it also became obvious that the Australian economy, including retail spending, was more resilient than expected by policymakers and the economists' fraternity.

Retail sales in value (or nominal terms) grew by 9.6% year on year, well above the long-run average of 3.7% and well above the annual rate of 2.6% where it was in December 2019.

In December, retail sales fell 4.1%, but Australians simply ran out of puff, after hitting the malls with gusto in November to take advantage of 'Black Friday' and 'Cyber Monday' sales.

Online spending fell 2.3% in December and on a year ago is 53.8% higher. During the height of the pandemic, online spending grew at nearly 86% per annum!

Retail sales volumes (or real retail sales) jumped

2.5% in the December quarter and are up 6.4% on a year ago- the fastest annual rate in 16 years! A surge in Victorian retail sales volumes drove the rise, as Victorians emerged from lockdown with pent-up demand!

NT and the mining States of QLD and WA stood out as leading the growth in retailing in 2020.

The Reserve Bank (RBA) published its quarterly Statement on Monetary Policy on Friday. As expected, the RBA made changes to its economic forecasts. It upgraded GDP in 2020 from a previously expected fall of 4.5% to a fall of 2.0%. However, the central bank downgraded GDP growth for 2021 from 4.5% to 3.5%. It left GDP growth for 2022 unchanged at 3.5%.

The RBA revised lower its unemployment forecasts. It now expects the unemployment rate to end this year at 6.0% (from 6.5% previously) and end next year at 5.5% (from 6.0% previously).

Underlying inflation, as measured by the trimmed mean, is expected to remain very soft, but the forecasts were tweaked slightly higher for 2020 and 2021 (to 1.2% and 1.25%, respectively), while remaining unchanged for 2022 (at 1.5%).

United States: Non-farm payrolls rose 49k in January, well under consensus expectations for a rise of 105k. It was the lowest outcome since before the pandemic. There were large downward revisions to the previous two months, which amounted to 159k fewer jobs created over the two-month period.

The unemployment rate fell from 6.7% in December to 6.3% in January and was lower than consensus expectations of 6.7%. The fall in the unemployment rate was aided by a drop in the participation rate.

US Treasury Secretary Janet Yellen hit the Sunday talk shows to push the Biden administration's \$1.9 trillion relief bill. She said the US can return to full employment in 2022 if it enacts a robust enough stimulus package, but otherwise risks a much slower rebound in jobs and the economy.

Today's key data and events:

GE Industrial Production Dec exp 0.3% prev 0.9% (6pm)

EZ Sentix Investor Confidence Feb exp 2.0 prev 1.3 (8:30pm)

US Federal Reserve's Mester Speech (4am)

US Federal Reserve Chair Powell Speech (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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