Morning report

Thursday, 1 July 2021

Equities (close & % change)		
S&P/ASX 200	7,313	0.2%
US Dow Jones	34,503	0.6%
Japan Nikkei	28,792	-0.1%
China Shanghai	3,764	0.5%
German DAX	15,531	-1.0%
UK FTSE100	7,037	-0.7%
Commodities (close & change)*		
CRB Index	213.4	2.1
Gold	1,769.91	8.7
Copper	9,323.00	-49.3
Oil (WTI)	73.56	0.6
Coal (thermal)	128.85	4.6
Coal (coking)	192.33	5.2
Iron Ore	211.25	0.1

Sydney Futures Exchange (close & change)				
	Last			**Overnight Chg**
10 yr bond	98.46			0.00
3 yr bond	99.53			-0.02
3 mth bill rate	99.96			0.01
SPI 200	7,222.0			-1
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	63.0	-	-	62.7
AUD/USD	0.7513	0.7527	0.7492	0.7500
AUD/JPY	83.06	83.35	82.81	83.33
AUD/GBP	0.5427	0.5440	0.5410	0.5422
AUD/NZD	1.0743	1.0761	1.0728	1.0731
AUD/EUR	0.6313	0.6334	0.6305	0.6324
AUD/CNH	4.8578	4.8632	4.8440	4.8507
USD Index	92.1	92.4	92.0	92.4

Interest rates (close & change)		
Australia		
90 day BBSW	0.03	0.00
2 year bond	0.06	0.00
3 year bond	0.41	0.00
3 year swap	0.48	0.01
10 year bond	1.53	-0.01
United States		
3-month T Bill	0.04	-0.01
2 year bond	0.25	0.00
10 year bond	1.47	0.00
Other (10 year yields)		
Germany	-0.21	-0.04
Japan	0.06	0.00
UK	0.72	-0.02

Data as at 7:30am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Markets were mixed on quarter-end rebalancing while investors also weighed solid economic data against concerns over a more contagious variant of COVID-19. US equities rose and the defensive US dollar extended recent gains. US bond yields finished mostly unchanged.

Share Markets: The S&P rose 0.1% overnight, touching a new record high. The Dow was up 0.6%.

The Dax fell 1.0% and the ASX 200 edged up 0.2%.

Interest Rates: US bonds yields closed largely unchanged. Australian 10-year bond yields (futures) finished little changed at 1.55% while 3-year futures edged up from 0.47% to 0.48%.

Foreign Exchange: The AUD/USD pair slipped from 0.7513 to 0.7500. The US dollar index rose to a three-month high.

Commodities: Gold and oil prices increased. The iron ore price continues to hold above US$200/tonne.

COVID-19: NSW recorded 22 new COVID-19 cases yesterday, with 15 of those in isolation for either part or all of their infectious period. Premier Berejiklian hinted that the lockdown is on track to end as planned on July 9.

We expect the NSW lockdown to reduce economic activity by around $750 million per week, although it could be as high as $1 billion a week. These are broadly consistent with early estimates from NSW Treasury.

There is a risk that the restrictions in NSW could reduce GDP growth by at least 0.2 percentage points in the September quarter. This figure could be larger if the lockdown is dragged out. We do not expect a material impact on GDP in the June quarter.

Service-oriented businesses will be the most impacted, especially those that cannot make up the short fall from growth in online spending. High frequency foot-traffic data suggests there has been a shift in spending patterns similar to previous lockdowns.

The economic fallout will be cushioned by pent-up spending when restrictions lift and government support.

If the NSW lockdown lasts only two weeks, previous experience suggests the overall economic impact will be limited. But it is incredibly difficult to predict the path of the virus. The key determinant of the economic hit will be how quickly the outbreak is contained.

Elsewhere in Australia, Queensland recorded 3 new cases yesterday, whilst Western Australia and Victoria both recorded one new case. Due to the increasing outbreaks across the country, Victorian authorities have decided to put a hold on easing current restrictions.

South Australia recorded 5 new COVID-19 cases yesterday, which is linked to the NT mine exposure site. Although Premier Steven Marshall said that the

Delta variant was “particularly worrying”, SA will not go into a lockdown, but new restrictions will be introduced.

From 1pm yesterday, Alice Springs town council boundaries, including town camps entered a snap 3-day lockdown. This is after a mine worker in SA and his family tested positive for COVID-19.

Australia: There is an ongoing improvement underway in lending to consumers and businesses. Initially, the recovery in lending to the credit sector was led by consumers, especially borrowing by consumers for housing. But encouragingly, lending to businesses has improved, notably since the end of last year. Business credit growth is on the up!

Credit extended to businesses in the private sector increased 0.2% in May. Business credit turned a corner in December last year. In the past six months, business credit has declined only twice. The recovery in business credit should take greater hold in coming months, driven by generous government tax incentives for business investment.

The strongest lending in the private sector occurred for housing lending. Lending for housing grew 0.6% in May, the fastest monthly rate in nearly four years, and by 4.8% in the year to May, the fastest clip in 2½ years.

Other personal credit, which includes personal loans and credit cards, is also on the mend. This segment rose 0.3% in May, which is the third consecutive monthly gain.

Total credit to the private sector rose 0.4% in May and lifted by 1.9% in the year to May – the firmest annual rate since September 2020. Credit growth should strengthen over the year ahead, as the economic expansion continues, provided lockdowns in several states are relatively short.

China: China’s purchasing managers’ index (PMI) showed continued signs of expansion in June. The manufacturing sector broadly maintained its pace of activity, operating at full capacity, however, the services sector slowed down, due to another virus outbreak. The manufacturing PMI edged lower in June to 50.9, from 51.0 in May. And the services PMI fell to 53.5 in June from 55.2 in May.

Europe: Eurozone CPI increased 0.3% in June, to be up 1.9% over the year, in line with expectations. Core CPI was up 0.9% in the year to June.

New Zealand: Business confidence fell to -0.6 in June, from 1.8 in May. The underlying gauges of business activity have generally been trending higher and are back around their long-run averages. Employment and investment intentions also remained strong. Inflationary pressures continue to build, as expectations for inflation over the year ahead rose to 2.4%, which is well above the Reserve Bank of New Zealand’s target midpoint. Businesses are facing enormous cost pressures and as a result are planning to increase their prices, which is driven by the combination of strong demand and continued supply constraints.

United Kingdom: The final reading of March quarter GDP showed activity fell 1.6% in the quarter, versus the preliminary estimate of a 1.5% fall. Private activity fell by more than the previous reading but was partly offset by less sharp declines in trade and capital expenditure.

United States: US ADP employment data showed an increase of 692k jobs in June. This was below the revised estimate of 886k in May but above market expectations of 550k. Most of the gain was in the services sector, with hiring in the leisure and hospitality industries accounting for almost half of the increase.

Economic activity in the Chicago region fell in June with the US Chicago PMI coming in at 66.1, lower than its May reading of 75.2. While below market expectations of 70.0, it remains at high levels. New orders and production are still expanding, but at a slower pace than previously, while the employment gauge declined in June.

US pending home sales data showed a gain of 8.0% in May, up significantly from a 4.4% fall in April. This surprised economists – the market expected a 1.0% decline – and was the highest reading for May since 2005. The increase was attributed to low mortgage rates. Robust demand and low listing numbers have contributed to strong price growth over the past year or so.

Today's key data and events:

NZ Building Permits May prev 4.8% (8:45am)

AU CoreLogic Dwelling Prices Jun exp 2.0% prev 2.3% (10am)

AU Trade Bal. May exp $10.5bn prev $8.0bn (11:30am)

AU Job Vacancies May prev 13.7% (11:30am)

CH Caixin Mfg PMI Jun exp 51.9 prev 52.0 (11:45am)

EZ Unemployment Rate May exp 8.0% prev 8.0% (7pm)

US Initial Jobless Claims w/e Jun 26 exp 386K prev 411K (10:30pm)

US Const'n Spending May exp 0.4% prev 0.2% (12am)

US ISM Manufacturing Jun exp 61.0 prev 61.2 (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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