Morning report

Bank of Melbourne

Friday, 1 October 2021

Equities (close & % change)		
S&P/ASX 200	7,332	1.9%
US Dow Jones	33,844	-1.6%
Japan Nikkei	29,453	-0.3%
China Shanghai	3,740	0.9%
German DAX	15,261	-0.7%
UK FTSE100	7,086	-0.3%
Commodities (close & change)*		
CRB Index	228.9	1.8
Gold	1,756.95	30.6
Copper	9,165.00	-108.1
Oil (WTI)	75.03	0.2
Coal (thermal)	217.00	7.2
Coal (coking)	347.50	-7.2
Iron Ore	116.55	-0.3

Sydney Futures Exchange (close & change)	Last	Overnight Chg
10 yr bond	98.51	0.03
3 yr bond	99.53	0.00
3 mth bill rate	99.96	-0.01
SPI 200	7,179.0	-114

FX Last 24 hrs	Open	High	Low	Current
TWI	61.0	-	-	60.8
AUD/USD	0.7177	0.7257	0.7175	0.7225
AUD/JPY	80.35	80.91	80.30	80.40
AUD/GBP	0.5344	0.5370	0.5340	0.5362
AUD/NZD	1.0451	1.0487	1.0445	1.0477
AUD/EUR	0.6188	0.6258	0.6186	0.6238
AUD/CNH	4.6494	4.6779	4.6484	4.6617
USD Index	94.4	94.5	94.1	94.2

Interest rates (close & change)		
Australia		
90 day BBSW	0.02	0.00
2 year bond	0.04	0.01
3 year bond	0.31	0.01
3 year swap	0.52	0.00
10 year bond	1.49	0.01
United States		
3-month T Bill	0.03	0.00
2 year bond	0.28	-0.01
10 year bond	1.49	-0.03
Other (10 year yields)		
Germany	-0.20	0.01
Japan	0.07	-0.01
UK	1.02	0.03

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

Main Themes: Concerns regarding tapering of Fed support, economic growth amid supply-chain bottlenecks, and risks surrounding the Chinese economy weighed on risk sentiment. US lawmakers passed a stopgap measure to secure funding until early December. Equity markets fell, bond yields and the US dollar were also weaker.

Share Markets: US equity markets posted their weakest monthly result since March 2020. The S&P 500 was down 1.2%, taking its losses over the month to almost 5%. The NASDAQ also fell 0.4% on the day.

The ASX 200 rose 1.9%. Futures are pointing to a weaker open today.

Interest Rates: The 10-year US treasury yield fell 3 basis points to 1.49%. The 2-year yield was also down 1 basis point to 0.28%.

The Australian 10-year government bond yield (futures) fell from 1.52% to 1.49%. The 3-year government bond yield (futures) hovered around 0.48%.

Foreign Exchange: The US dollar was weaker against most major currencies, with the AUD benefiting. The USD Index fell from a high of 94.5 to a low of 94.1, before recovering to 94.2.

The AUD/USD pair rose from a low of 0.7175 to a high of 0.7257, before consolidating to 0.7225.

Commodities: Oil reversed an initial decline and rose following reports that Chinese authorities instructed state-owned energy companies to secure supplies for the upcoming winter at all costs.

Gold was up, while iron ore and copper fell.

COVID-19: NSW recorded 941 new cases yesterday and six deaths. Victoria recorded 1,438 new cases and five deaths. Elsewhere, the ACT recorded 31 new cases and Queensland recorded six new cases.

The Queensland Premier has announced the return of Stage 2 restrictions for South-East Queensland and the Townsville region. These restrictions came into effect from 4pm yesterday.

Australia: Residential building approvals bounced back in August from falls over the past four months. The number of total residential building approvals rose by 6.8% in the month, to be 31.2% higher over the year.

The growth was driven by a 13.7% rise in private multi-density dwellings (i.e. apartments and townhouses) and a 3.5% increase in private sector houses.

Over recent months, approvals have fallen as the bring-forward effect induced by the Federal Government's HomeBuilder scheme has been unwound. This month's result shows that demand for new dwellings remains strong despite the policy no longer being in place.

Private sector house approvals increased in SA

(16.6%), Victoria (8.1%) and NSW (7.0%), despite Victoria and NSW being impacted by lockdowns. House approvals were down 7.3% in WA and 5.2% in Queensland.

The strong pipeline of construction activity that has been created by this surge in approvals will continue to support jobs and economic growth as NSW and Victoria come out of lockdown.

Separately, private sector credit grew 0.6% in August, marking another month of robust growth despite extended lockdowns in Australia's two most populous cities. In annual terms, credit grew at 4.7% – the fastest rate in over three years.

Business credit continued to expand at a solid rate, increasing 0.6% in the month to be 3.4% higher over the year. The increase in August likely reflects businesses in Victoria shoring up cash flow buffers as the state was plunged back into a lengthy lockdown.

Housing credit rose 0.6% in August and 6.2% in annual terms. Credit to owner-occupiers continues to grow faster than credit to investors.

Business credit growth will likely be disrupted in the coming months. Business confidence has dropped sharply, and some businesses will be less willing to take on more debt as restrictions limit their ability to generate revenue.

Job vacancies fell by 10.0% in the three months to August but remained 46.0% higher than pre-pandemic levels. The fall in job vacancies coincided with the lockdowns in NSW, Victoria and the ACT, and followed lockdowns in Queensland and SA. It was the first drop in vacancies since May 2020, during the initial wave of COVID-related lockdowns and restrictions.

China: China's economic recovery is starting to lose momentum as the manufacturing sector faces COVID-19 outbreaks, higher raw material costs, production bottlenecks and more recently power rationing.

China is in the middle of a power crunch due to a shortage of coal and tougher emissions standards which have triggered widespread curbs on electricity usage.

China's official manufacturing PMI fell to 49.5 in September, marking the first time it has slipped below 50 since the pandemic began. A reading below 50 indicates a decline in output. Meanwhile, the non-manufacturing PMI which measures activity in construction and the services sector rose to 53.2 in September, up from 47.5 in August.

The current account surplus was revised up to $53.3 billion for the second quarter, following a preliminary estimate of $52.8 billion.

Eurozone: Unemployment continued to fall in August. Unemployment came in at 7.5% for the month, in line with consensus expectations. This was down from 7.6% in July. An easing of restrictions continues to support the recovery.

New Zealand: Despite the country being in lockdown for the last two weeks of August, residential building approvals rose 3.8%, reaching a new record high. Over the year, approvals rose 24.0% to 46,453. Much of the surge in approvals has been concentrated in Auckland.

Business confidence fell to -7.2 in September, following a -14.2 fall in August. Underlying gauges of business activity, employment and investment intentions remain strong. Inflationary pressures continue to build and inflation expectations now sit slightly above the Reserve Bank of New Zealand's target band.

United Kingdom: House prices rose 0.1% in September. This was below consensus expectations of 0.6% growth and down from 2.0% growth in August. The annual growth rate also slowed, although remained in the double digits. Annual growth fell to 10% over the year to September, down from 11% over the year to August.

The UK economy grew by more than expected in the second quarter. The final estimate of second quarter GDP rose to 5.5%, up from the initial estimate of 4.8%. Robust government spending and stronger business investment helped drive the improvement. Heath services and the arts sectors were stronger-than-expected.

United States: US lawmakers passed a stopgap measure to secure funding until 3 December. This avoids the prospects of a near-term shortage of funding for the government.

Initial jobless claims rose to 362k for the week ending 25 September. This was up from 351k in the prior period and above consensus expectations of 330k. Unemployment claims have now risen for the third consecutive week, although the weekly data can be volatile.

The third and final estimate of second quarter GDP showed the economy grew at an annualised rate of 6.7% over the quarter. This was up on the previous estimate of 6.6% growth. Core personal consumption expenditure (PCE) was unchanged at 6.1%.

The Chicago PMI fell to 64.7 in September, below consensus expectations of 65.0. The reading was down from the August outcome of 66.8. The measure has now fallen to its lowest level in seven months. However, it remains elevated and activity remains robust. Supply shortages continue to drag on production, including shortages of raw materials. Employment improved, an encouraging sign given continued concerns around skills shortages.

Today's key data and events:

NZ ANZ Cons. Conf. Index Sep prev 109.6 (7am)
AU CL Dwelling Prices Sep exp 1.4% prev 1.5% (10am)
AU Housing Finance (11:30am)
  Total Aug exp -3.0% prev 0.2%
  Owner Occupier Aug exp -3.5% prev -0.4%
  Investor Aug exp -2.0% prev 1.8%
EZ Markit Mfg PMI Sep F exp 58.7 prev 58.7 (6pm)
UK Markit Mfg PMI Sep F exp 56.3 prev 56.3 (6:30pm)
EZ CPI Core Sep Prel. exp 1.9% prev 1.6% (7pm)
US Personal Income Aug exp 0.2% prev 1.1% (10:30pm)
US Personal Spending Aug exp 0.6% prev 0.3% (10:30pm)
US PCE Core Deflator Aug exp 0.2% prev 0.3% (10:30pm)
US Markit Mfg PMI Sep F exp 60.5 prev 60.5 (11:45pm)
US UoM Cons. Sentiment Sep F exp 71.0 prev 71.0 (12am)
US Const. Spending Aug exp 0.3% prev 0.3% (12am)
US ISM Mfg Sep exp 59.5 prev 59.9 (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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