

Wednesday, 1 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,535	0.4%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	35,361	-0.1%	10 yr bond	98.82				90 day BBSW	0.01	0.00
Japan Nikkei	28,090	1.1%	3 yr bond	99.73				2 year bond	0.01	0.00
China Shanghai	3,714	0.4%	3 mth bill rate	99.98				3 year bond	0.24	0.01
German DAX	15,835	-0.3%	SPI 200	7,444.0				3 year swap	0.43	0.00
UK FTSE100	7,120	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.16	0.00
<b>Commodities (close &amp; change)*</b>			TWI	61.0	-	-	61.2	<b>United States</b>		
CRB Index	218.2	-1.4	AUD/USD	0.7296	0.7341	0.7288	0.7316	3-month T Bill	0.04	-0.01
Gold	1,813.62	3.3	AUD/JPY	80.21	80.64	80.08	80.47	2 year bond	0.21	0.01
Copper	9,413.75	108.8	AUD/GBP	0.5303	0.5327	0.5296	0.5318	10 year bond	1.31	0.03
Oil (WTI)	68.50	-0.7	AUD/NZD	1.0424	1.0428	1.0349	1.0378	<b>Other (10 year yields)</b>		
Coal (thermal)	164.10	2.5	AUD/EUR	0.6184	0.6206	0.6174	0.6194	Germany	-0.38	0.06
Coal (coking)	254.67	2.5	AUD/CNH	4.7159	4.7405	4.7136	4.7216	Japan	0.03	0.00
Iron Ore	148.90	-3.3	USD Index	92.7	92.7	92.4	92.7	UK	0.71	0.14

Data as at 8:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** US stocks hovered around record highs while bond yields rose following signals from the European Central Bank that they are considering pulling back on stimulus.

**Share Markets:** US stocks lingered around all-time highs amid mixed data. The S&P 500 and the Dow both edged 0.1% lower. The ASX 200 rose 0.4%.

**Interest Rates:** The US 10-year treasury yield rose 3 basis points to 1.31%. This was led by a rise in 10-year German bund yields, up 6 basis points to -0.38%, alongside further tapering signals from the European Central Bank (ECB). The US 2-year yield was largely unchanged at 0.21%.

The Australian 10-year (futures) yield increased 4 basis points to 1.19%. The 3-year futures yield was mostly unchanged at 0.28%.

**Foreign Exchange:** The AUD/USD pair roundtripped from 0.7288 to 0.7341 and is now trading at 0.7316. The US dollar is unchanged on the day.

**Commodities:** Oil slipped as investors weighed the prospect of further OPEC production. Iron ore fell and gold firmed.

**COVID-19:** NSW recorded 1,164 new cases yesterday. Victoria recorded 76 cases and the ACT recorded 13 new cases.

The current lockdown in the ACT has been extended by 2 weeks and is now due to end on 17 September. The Prime Minister announced that Singapore will

soon send half a million Pfizer COVID-19 vaccine doses to Australia as part of a "vaccine swap" between the two countries. Under the agreement, Australia will receive 500,000 Pfizer doses, which will shortly expire. The Federal government will then deliver half a million Pfizer vaccines back to Singapore in December when Australia is expected to have ample supplies.

**Australia:** The national accounts data for the June quarter is published today. We expect GDP in the June quarter rose just 0.1%. Domestic demand and incomes were strong, but the trade sector and inventories were drags on growth in the quarter. The mini lockdowns during the quarter and the start of the outbreak late in the quarter attach greater variability to the forecast.

Indeed, we cannot rule out GDP falling in the June quarter; it is close to a line-ball call. A contraction in the June quarter would mean we are in the midst of a technical recession because GDP will almost certainly show a contraction in the current quarter.

Yesterday, there was a big batch of data published. They included building approvals, private-sector credit, consumer confidence, government statistics and the balance of payments.

Residential building approvals continued to fall in July, as the impact of the HomeBuilder program continued to unwind, and lockdowns swept the country. Building approvals fell 8.6% in the month,

although remain over 10% above their pre-COVID level as at December 2019.

The decline in July was underpinned by a 12.3% decline in private multi-density dwellings (i.e., apartments and townhouses). Private sector house approvals also fell in the month, by 5.8%.

Separately, private sector credit grew by a solid pace in July – up 0.7% in the month and 4.0% in the twelve months to July. It is the fastest annual pace in 2½ years.

Growth in the month was underpinned by credit extended for owner-occupier housing and for business purposes. Other personal credit, such as credit cards and personal loans, continued to flail.

Business credit expanded 1.1% in July, after a solid increase of 1.6% in June. But this lift in July has more to do with businesses shoring up their cash flow buffers rather than taking on more debt to invest in new equipment or premises.

Business spending plans are mostly on hold in NSW and Victoria. The lockdowns in these states are starting to pinch businesses more, especially smaller businesses and businesses operating in hospitality, accommodation, and personal services.

The Roy Morgan weekly consumer confidence index remained virtually unchanged at 101.8 in the week ending 29 August. This was due to the rise in vaccination rates as lockdowns continued in NSW, Victoria and the ACT.

**China:** China's purchasing managers' index (PMI) showed signs of economic activity weakening in August. This comes as an outbreak of the Delta variant curbed consumer spending and travel. Businesses also continued to face surging raw material prices and supply-chain disruptions. The manufacturing PMI edged lower in August to 50.1, from 50.4 in July. The services PMI fell below 50.0 for the first time since February last year. It dropped to 47.5 in August, from 53.3 in July.

As the economy is showing signs of slowing down, the central bank has signalled it may provide more targeted support, like a cut in the reserve requirement ratio for some lenders. The government has also pledged to accelerate fiscal spending in the second half of the year.

**Europe:** More ECB officials signalled tapering of quantitative easing. Holzmann said that the central bank should discuss cutting back support at next week's meeting. Knot also indicated that the ECB can afford to reduce the asset purchase program, given favourable financing conditions.

Headline CPI inflation for August surprised to the upside, increasing 0.4% in the month and 3.0% over the year, the highest annual reading in a decade. Core CPI rose to 1.6% over the year.

**New Zealand:** Residential building approvals rose 2.1% in July, following a revised 4.0% increase in June. Over the year, approvals rose 20.0% and a record high of 45,119 buildings were approved. Much of the surge in approvals has been concentrated in Auckland.

Business confidence fell to -14.2 in August, from -3.8 in July. Underlying gauges of business activity, employment and investment intentions remain at high levels, consistent with an economy that is sustaining strong demand. Inflationary pressures continue to build, as expectations for inflation over the year ahead rose to 3.05%.

**United States:** S&P CoreLogic house prices increased 1.8% in June marking the 13<sup>th</sup> straight month of price gains. Over the year property values are up 19.1% – a new record.

The Chicago PMI declined from 73.4 to 66.8. Supply shortages and backlogs caused production to falter. The prices paid index hit its highest level since 1979.

The Conference Board consumer confidence index pulled back to 113.8 in August, from 125.1. This is the lowest level in six months, suggesting the spread of the delta variant has dented confidence.

#### Today's key data and events:

AU CL Dwelling Prices Aug exp 1.5% prev 1.6% (10am)  
 AU GDP Q2 (11:30am)  
 q/q exp 0.1% prev 1.8%  
 y/y exp 8.8% prev 1.1%  
 CH Caixin Mfg PMI Aug exp 50.1 prev 50.3 (11:45am)  
 CH Caixin Services PMI Aug exp 52.0 prev 54.9 (11:45am)  
 UK N'wide House Prices Aug exp 0.1% prev -0.5% (4pm)  
 EZ Markit Mfg PMI Aug F. exp 61.5 prev 61.5 (6pm)  
 UK Markit Mfg PMI Aug F. exp 60.1 prev 60.1 (6:30pm)  
 EZ Unemployment Rate Jul exp 7.6% prev 7.7% (7pm)  
 US ADP Employ. Chg. Aug exp 625k prev 330k (10:15pm)  
 US Markit Mfg PMI Aug F. exp 61.2 prev 61.2 (11:45pm)  
 US Construction Spending Jul exp 0.2% prev 0.1% (12am)  
 US ISM Mfg Aug exp 58.5 prev 59.5 (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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