

Monday, 5 July 2021

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 7,309 | 0.6% | Last | | Overnight Chg | | | Australia | | |
| US Dow Jones | 34,786 | 0.4% | 10 yr bond | 98.57 | 0.05 | | | 90 day BBSW | 0.03 | 0.00 |
| Japan Nikkei | 28,783 | 0.3% | 3 yr bond | 99.59 | 0.02 | | | 2 year bond | 0.09 | -0.01 |
| China Shanghai | 3,688 | -2.0% | 3 mth bill rate | 99.96 | 0.00 | | | 3 year bond | 0.38 | -0.02 |
| German DAX | 15,650 | 0.3% | SPI 200 | 7,230.0 | 0 | | | 3 year swap | 0.46 | -0.02 |
| UK FTSE100 | 7,123 | 0.0% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 1.48 | -0.04 |
| Commodities (close & change)* | | | TWI | 62.5 | - | - | 62.5 | United States | | |
| CRB Index | 215.0 | 0.4 | AUD/USD | 0.7468 | 0.7533 | 0.7445 | 0.7524 | 3-month T Bill | 0.04 | -0.01 |
| Gold | 1,787.30 | 10.5 | AUD/JPY | 83.29 | 83.64 | 83.04 | 83.52 | 2 year bond | 0.23 | -0.02 |
| Copper | 9,358.02 | 54.3 | AUD/GBP | 0.5425 | 0.5449 | 0.5414 | 0.5441 | 10 year bond | 1.42 | -0.03 |
| Oil (WTI) | 75.16 | -0.1 | AUD/NZD | 1.0714 | 1.0728 | 1.0698 | 1.0708 | Other (10 year yields) | | |
| Coal (thermal) | 134.00 | 2.6 | AUD/EUR | 0.6302 | 0.6346 | 0.6298 | 0.6338 | Germany | -0.24 | -0.03 |
| Coal (coking) | 197.67 | 1.0 | AUD/CNH | 4.8332 | 4.8753 | 4.8309 | 4.8705 | Japan | 0.05 | 0.00 |
| Iron Ore | 205.00 | 1.3 | USD Index | 92.5 | 92.7 | 92.2 | 92.2 | UK | 0.70 | -0.03 |

Data as at 7:45am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Wall Street scaled new highs on Friday. Demand for equities was underpinned by US jobs data showing robust hiring. But the unemployment rate increased. Investors were encouraged that a higher unemployment rate would help keep the Federal Reserve from tapering policy quickly. US bond yields and the US dollar fell after the report.

Share Markets: The three major indices – the S&P 500, the Dow and Nasdaq – closed at record highs. The Dow rose 153 points (or +0.4%), the S&P 500 lifted 32 points (or +0.8%) and the Nasdaq rose 117 points (or +0.8%).

Interest Rates: US bond yields fell on Friday night. The US 2-year yield declined by 2 basis points and the 10-year yield dropped 3 basis points.

Meanwhile, the Australian 3-year government bond yield (futures) fell from 0.44% to 0.42% and the 10-year yield fell from 1.50% to 1.42%.

Foreign Exchange: The Australian dollar was driven by US-dollar developments again on Friday night. The Australian dollar lifted from a fresh 7-month low of 0.7445 to rise to 0.7533 after the US dollar sold off in the wake of the US jobs report.

The USD index dropped from a Friday night high of 92.74 to a low of 92.18. Whilst payrolls rose by more than markets anticipated, the unemployment rate lifted and tempered expectations about the Fed's policy unwind.

Commodities: The oil market standoff between Saudi and the UAE continued. Saudi's Energy Minister insisted last night that OPEC must extend its production agreement to the end of next year, sticking to a plan that has met with opposition from the UAE. He said the cartel can't agree to UAE demands and no deal means no output hike in August. The discussions resume later today.

COVID-19: On Friday, Prime Minister Morrison announced a four-phase plan out of COVID-19. There are no timeframes for these phases.

Under phase one, the international arrivals cap will be reduced by 50%. This reduction is expected to be in place until at least the end of the year. At the same time, some states will trial a system where returned vaccinated travellers will be able to home quarantine at home for only seven days. South Australia was willing to be part of this trial.

Under phase 2, the international arrivals cap would be restored to previous levels for unvaccinated travellers, with a separate, larger cap for vaccinated travellers. In this phase, Morrison said lockdowns would only occur "in extreme circumstances". Vaccinated residents would also have eased restrictions under any lockdown, or similar rules.

The third phase would be treating COVID-19 like any other infectious disease. There would be no lockdowns, no cap on returning vaccinated travellers and no domestic restrictions for

vaccinated residents. There could also be a travel bubble with countries like Singapore. He also said there would be increased, though capped, entries for international students.

The last phase would be a return to pre-pandemic normal, although still with pre- and post-flight testing for people arriving in Australia.

Yesterday, NSW reported 16 additional cases. Queensland and WA both recorded one new case of community transmission.

The UK has become the first nation in the world to plan a third round of COVID-19 vaccinations for vulnerable Britons, with a boost program.

Australia: The residential property boom continues to gather pace and while it has been largely driven by owner-occupiers, lending to investors has rapidly accelerated. The value of new loans excluding refinancing increased by 4.9% in May, hitting a new record high of \$32.6 billion. The increase in May was driven by a 13.3% surge in investor lending – the third highest monthly growth rate on record.

Investors are charging back to the market, with annual growth of 116.0% to May versus annual growth of 88.4% for owner-occupiers. Investor lending is now 75.4% higher than at the beginning of the pandemic. Lending to owner-occupiers is 68.4% higher.

Very low mortgage rates have helped drive annual growth in new loan commitments to historic highs in every state and territory, ranging from 65.3% in the ACT to 165.1% in the NT. In year-ended terms, investor loan commitments are also growing faster than owner-occupier commitments in every state and territory.

New Zealand: Consumer confidence remained virtually unchanged at 114.1 in June, following 114.0 in May. The number of people who believe it is a good time to purchase a major household item rose 3 points to a net 22.0%. This was a post COVID high. Inflation expectations jumped to 5.1% in June, from 4.4% in May.

United States: Non-farm payrolls rose by 850k in June against consensus expectations for a smaller gain of 711k. It was the largest jobs gain in 10 months. But the total is still 6.8 million below the peak in February 2020. Employment is not expected to return to its pre-pandemic level until some time in 2022.

The unemployment rate rose to 5.9% in June, from 5.8% in May. The unemployment rate continued to be understated by people misclassifying themselves

as being “employed but absent from work”. Without this misclassification, the unemployment would have been 6.1% in June.

Average hourly earnings rose 0.3% last month, led by low-wage industries, after gaining 0.4% in May. That raised the year-on-year increase in wages to 3.6% in June, from 1.9% in May. Annual wages growth was in part flattered by base effects following a big drop last June.

The US trade deficit widened in May, as American consumers and businesses stepped up purchases of imported products and materials amid a continued economic recovery. The trade deficit widened to \$71.2 billion in May, from \$69.1 in April. The trade deficit had hit a monthly record of \$75.0 in March. In May, exports of goods and services rose 0.6%, but that was offset by a 1.3% gain in imports.

Today's key data and events:

AU Melb. Inst. Inflation Gauge Jun y/y prev 3.3% (11am)
 AU Job Advertisements Jun prev 7.9% (11:30am)
 AU Bldg Approvals May exp -10.0% prev -8.6% (11:30am)
 AU Retail Sales May Final exp 0.1% prev 0.1% (11:30am)
 CH Caixin Services PMI Jun exp 54.9 prev 55.1 (11:45am)
 EZ Markit Services PMI Jun Final prev 58.0 (6:00pm)
 EZ Sentix Investor Confidence Jul prev 28.1 (6:30pm)
 UK Markit/CIPS Services PMI Jun Final prev 61.7 (6:30pm)

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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The Detail

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