

Tuesday, 6 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,315	0.1%	Last		Overnight Chg			Australia		
US Dow Jones	34,786	closed	10 yr bond	98.55	-0.02			90 day BBSW	0.03	0.00
Japan Nikkei	28,598	-0.6%	3 yr bond	99.58	0.00			2 year bond	0.09	0.00
China Shanghai	3,704	0.4%	3 mth bill rate	99.96	0.00			3 year bond	0.37	-0.01
German DAX	15,662	0.1%	SPI 200	7,248.0	19			3 year swap	0.46	0.00
UK FTSE100	7,165	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.43	-0.04
Commodities (close & change)*			TWI	62.5	-	-	62.8	United States		
CRB Index	215.0	closed	AUD/USD	0.7524	0.7537	0.7509	0.7531	3-month T Bill	0.04	closed
Gold	1,791.77	4.5	AUD/JPY	83.52	83.62	83.42	83.57	2 year bond	0.23	closed
Copper	9,490.10	132.1	AUD/GBP	0.5441	0.5443	0.5433	0.5440	10 year bond	1.42	closed
Oil (WTI)	76.36	0.4	AUD/NZD	1.0708	1.0730	1.0696	1.0720	Other (10 year yields)		
Coal (thermal)	137.75	3.8	AUD/EUR	0.6338	0.6351	0.6335	0.6348	Germany	-0.21	0.03
Coal (coking)	198.00	0.3	AUD/CNH	4.8705	4.8732	4.8552	4.8679	Japan	0.04	-0.01
Iron Ore	210.00	1.3	USD Index	92.2	92.4	92.1	92.3	UK	0.71	0.01

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: Financial markets were quiet with the US on holiday for Independence Day and thinner trading conditions.

Australian investors are eyeing the outcome of the Reserve Bank (RBA) board meeting today. The RBA flagged in May that it would make decisions around its yield-curve control and quantitative easing programs at today's meeting.

Share Markets: US share markets were closed for Independence Day. Across in Europe, share markets rallied. The Euro Stoxx 50 index rose 3 points (or +0.1%), the German DAX lifted 12 points (or +0.1%) and the UK's FTSE 100 index jumped 42 points (or +0.6%).

Interest Rates: The US physical bond market was closed overnight. The US 10-year treasury yield implied by futures firmed by 1 basis point to 1.43%. Meanwhile, Fed funds futures continued to price a 50% chance of a US rate hike by October 2022.

The Australian 3-year government bond yield (futures) rose from 0.41% to 0.42% and the 10-year yield rose from 1.44% to 1.46%.

Foreign Exchange: Currencies stuck to narrow trading ranges overnight amid a national holiday in the US. The USD index stuck to 92.1-92.4 and the AUD/USD stuck to 0.7509-0.7537. It is the narrowest daily trading range for the AUD/USD since June 17.

Commodities: OPEC called off the meeting

scheduled for yesterday, as it again struggled to resolve the differences between Saudi and UAE regarding production into end 2021 and in 2022. Oil prices jumped as it means the cartel's current production limits will remain in place for now.

COVID-19: NSW recorded 35 new cases yesterday, bringing the total number of cases in the outbreak to 312, with 238 linked to the "Bondi" cluster.

Queensland recorded 4 new cases and South Australia recorded one new case yesterday.

The Trans-Tasman travel bubble reopened yesterday to people from Victoria, South Australia, Tasmania, and the ACT.

Australia: The Reserve Bank (RBA) board meet today. A statement will be published at 2:30pm AEDT and the RBA Governor will hold a press conference at 4pm. We expect the RBA to keep the cash rate unchanged at 0.10%. However, we expect the RBA to announce changes to its yield-curve control (YCC) and quantitative easing (QE) programs.

YCC involves the RBA buying and selling bonds to keep the 3-year government bond yield at around 0.10%. It is currently tied to the April 2024 bond. The RBA needs to decide whether to leave it pegged at April 2024 or extend it to the next bond maturity of November 2024. We anticipate the RBA will keep its YCC target pegged to the April 2024 bond. If the peg were extended to the November 2024 bond, it

would imply the RBA does not intend to increase the cash rate until 2025, which is too late given the robust economic conditions.

The QE program involves the RBA buying \$5 billion of government bonds per week with maturities of 5 to 10 years over a period of about six months. The value of purchases will total \$100 billion. The RBA needs to decide whether to extend this program and if there is an extension, what form this extension might take.

We expect the QE program will be extended but take will the form of an open and flexible program with \$5 billion per week in purchases. The RBA is likely to review this program again around December. We still expect the RBA to continue the program to the middle of 2022, but the pace of purchases in 2022 is likely to be lower than in 2021.

The term funding facility (TFF) for banks has already concluded. With the expiry of the TFF and announcements of adjustments to these other two programs for the RBA imminent, the upward pressure on swap rates, bond rates, and therefore, fixed borrowing rates is likely to continue.

Yesterday, retail sales and building approvals data was published for May.

Australians continued to open their wallets in May 2021. Retail sales increased by 0.4% in the month to be 7.7% higher on a year earlier. A decline in spending in Victoria, alongside the lockdown from late May, was more than offset by gains in other states.

Residential building approvals continued to ease in May, declining 7.1% in the month, following the expiry of the HomeBuilder scheme at the end of March. This follows a 5.7% decline in April.

The decline in May was underpinned by a 10.3% decline in approvals for private sector houses – coming off a record high in April.

Despite the pullback in recent months, approvals are still very elevated and point to a solid construction pipeline. Indeed, building approvals were still up 27.0% relative to pre-COVID levels, as of December 2019.

Separately, job advertisements rose 3.0% in June to reach their highest level since 2008.

China: The Caixin services purchasing managers' index (PMI) fell to 50.3 in June, down from 55.1 in May. The Caixin composite output index also fell from 53.8 in May to 50.6 in June.

Europe: Business activity in the eurozone region expanded at its fastest rate for 15 years in June,

driven by strong performances by the manufacturing and services sectors. The latest and final Markit composite PMI for June rose to 59.5, from the preliminary reading of 59.2 and the May outcome of 57.1.

Today's key data and events:

AU Roy Morgan Cons. Conf. w/e Jul 4 prev 112.2 (9:30am)
 AU Weekly Payroll Jobs & Wages w/e 9 Jun (11:30am)
 AU RBA Board Meeting (2:30pm)
 Cash Rate exp 0.10% prev 0.10%
 AU RBA's Lowe Press Conference (4pm)
 EZ Ger. Factory Orders May exp 1.1% prev -0.2% (4pm)
 EZ Retail Sales May exp 4.2% prev -3.1% (7pm)
 EZ ZEW Expectations Jul prev 81.3 (7pm)
 US ISM Services Index Jun exp 63.5 prev 64.0 (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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The Detail

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