

Friday, 9 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,341	0.2%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	34,422	-0.7%	10 yr bond	98.68	0.00			90 day BBSW	0.03	0.00
Japan Nikkei	28,118	-0.9%	3 yr bond	99.61	0.00			2 year bond	0.10	-0.01
China Shanghai	3,695	-0.8%	3 mth bill rate	99.96	-0.01			3 year bond	0.35	-0.04
German DAX	15,421	-1.7%	SPI 200	7,318.0	9			3 year swap	0.43	-0.03
UK FTSE100	7,031	-1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.32	-0.07
<b>Commodities (close &amp; change)*</b>			TWI	62.7	-	-	62.4	<b>United States</b>		
CRB Index	209.6	0.3	AUD/USD	0.7487	0.7489	0.7417	0.7428	3-month T Bill	0.05	0.00
Gold	1,802.83	-0.8	AUD/JPY	82.83	82.86	81.32	81.52	2 year bond	0.19	-0.02
Copper	9,430.81	140.8	AUD/GBP	0.5424	0.5426	0.5386	0.5387	10 year bond	1.29	-0.02
Oil (WTI)	72.94	0.7	AUD/NZD	1.0663	1.0707	1.0664	1.0690	<b>Other (10 year yields)</b>		
Coal (thermal)	123.00	2.5	AUD/EUR	0.6349	0.6349	0.6258	0.6271	Germany	-0.31	-0.01
Coal (coking)	204.50	3.5	AUD/CNH	4.8475	4.8478	4.8169	4.8233	Japan	0.03	-0.01
Iron Ore	205.45	-0.5	USD Index	92.7	92.8	92.2	92.4	UK	0.61	0.01

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** Risk sentiment deteriorated alongside increasing concerns that spreading variants of COVID-19 will impact the pace of the global recovery. The global death toll from the virus has now surpassed 4 million. Major market equities and bond yields declined.

**Share Markets:** It was a sea of red in global equity markets last night as traders grew concerned over the growing spread of the delta strain. US stock markets fell, with the S&P 500 down 0.9%. European markets were also down. The Euro Stoxx 50 fell 2.1% and the FTSE 100 and German DAX were both down 1.7%. In contrast, the ASX 200 edged up 0.2%.

**Interest Rates:** Interest rates fell, with US 10-year yields briefly falling to 1.25%, the lowest level since February, before recovering to settle at 1.29%. US 2-year yields fell from 0.21% to 0.19%.

Australian 3-year government bond yield (futures) remained broadly steady at 0.40%. The 10-year yield (futures) rose from 1.33% to 1.34%, while briefly falling to its lowest level since February.

**Foreign Exchange:** The US dollar weakened against major currencies. The USD Index fell from a high of 92.8 to a low of 92.2.

The Australian dollar came under pressure as markets moved into defensive mode. The AUD/USD pair fell to 0.7417 from 0.7487 during the trading day, its lowest level since December. It

subsequently recovered to be at 0.7428.

**Commodities:** Oil prices increased following a report from the US government showing high fuel demand and falling inventories during America's peak summer holiday season.

**COVID-19:** NSW recorded 38 new locally acquired COVID-19 cases yesterday, the highest number in 14 months. Of the 38 cases, 18 were in isolation throughout their infectious period, 9 were in isolation for part of their infectious period and the remaining 11 were infectious in the community for a number of days.

Queensland recorded two new COVID-19 cases.

The federal government announced that it will be waiving the liquid assets test for the one-off COVID-19 Disaster Payment, which ranges from \$325 to \$500. This change will also apply to other states and territories if they go into a third week of lockdown in a commonwealth defined hotspot area.

The government also announced that it will provide NSW with an additional 300k vaccine doses.

**Australia:** Reserve Bank Governor Lowe gave a speech yesterday on "The Labour Market and Monetary Policy". He discussed the labour supply factors that have contributed to weak wages growth, including high participation, greater access to overseas labour markets, and a rise in underemployment. He noted that it is likely the unemployment rate will need to be in the "low 4s"

for the economy to be at full employment, and wage growth would likely need to exceed 3% for inflation to return to its 2–3% target range. Regarding monetary policy settings, the Governor echoed similar sentiments from Tuesday's board meeting, namely that the condition for an increase in the cash rate depends "on the data and not the date; it is based on inflation outcomes, not the calendar" and that a step-down in bond purchases does not represent a withdrawal of support. He also mentioned that bond purchases would end prior to any increases in the cash rate.

There were no major economic data releases yesterday.

**Europe:** As was previewed yesterday, the European Central Bank (ECB) formally announced the outcome of its 18-month long strategic policy review. As expected, the ECB announced a change in its inflation target, setting it at 2% from the previous target of "below, but close to, 2% over the medium term." This change in the inflation target suggests that stimulus will remain in place for longer than would otherwise have been the case.

**United States:** Initial jobless claims increased to 373k for the week ending July 3 against consensus expectations of 350k. The previous week was revised up to 371k from 364k. While this increase was unexpected, new weekly filings for jobless benefits are less than half of their levels at the beginning of the year.

Continuing claims fell to 3.3 million, broadly in line with consensus expectations of 3.4 million.

Consumer credit increased to \$35.3 billion in May. This was the highest monthly increase on record and almost double consensus expectations of \$18 billion. The increase was driven by a rise in non-revolving credit, which includes loans for vehicle purchases and education. Revolving credit, which includes credit card loans, also increased in the month.

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

CH CPI Jun y/y exp 1.2% prev 1.3% (11:30am)

CH PPI Jun y/y exp 8.8% prev 9.0% (11:30am)

UK Industrial Production May exp 1.4% prev -1.3% (4pm)

UK Manufacturing Prod. May exp 1.0% prev -0.3% (4pm)

UK Trade Balance May exp -£1,250m prev -£935m (4pm)

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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