Morning report

Bank of Melbourne

Thursday, 10 June 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,270	-0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,447	-0.4%	10 yr bond	98.54		0.06		90 day BBSW	0.03	0.00
Japan Nikkei	28,861	-0.4%	3 yr bond	99.83		0.02		2 year bond	0.03	-0.02
China Shanghai	3,764	0.3%	3 mth bill rate	99.98		0.00		3 year bond	0.26	-0.02
German DAX	15,581	-0.4%	SPI 200	7,272.0		-3		3 year swap	0.31	0.00
UK FTSE100	7,081	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.57	-0.04
Commodities (close & change)*			TWI	63.8	-	-	63.8	**United States**		
CRB Index	211.2	0.0	AUD/USD	0.7737	0.7762	0.7724	0.7730	3-month T Bill	0.02	-0.01
Gold	1,888.57	-4.3	AUD/JPY	84.73	84.84	84.66	84.74	2 year bond	0.15	-0.04
Copper	9,956.25	15.3	AUD/GBP	0.5467	0.5485	0.5461	0.5477	10 year bond	1.49	-0.04
Oil (WTI)	69.96	-0.1	AUD/NZD	1.0750	1.0779	1.0744	1.0774	**Other (10 year yields)**		
Coal (thermal)	118.50	1.8	AUD/EUR	0.6356	0.6364	0.6340	0.6347	Germany	-0.24	-0.02
Coal (coking)	166.83	0.0	AUD/CNH	4.9519	4.9552	4.9352	4.9383	Japan	0.07	-0.01
Iron Ore	206.00	1.2	USD Index	90.1	90.2	89.8	90.1	UK	0.73	-0.04

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

Main Themes: US share markets fell and the US 10-year bond yield moved under 1.50% for the first time since early March.

Share Markets: US share markets failed to sustain a run near record highs. Investors are bracing for key US inflation data (out tonight) that could provide hints on the outlook for US Federal Reserve policy tapering. The Dow fell 153 points (or -0.4%), the S&P 500 index dropped 8 points (or -0.2%) and the Nasdaq eased 13 points (or -0.1%). Share markets were dragged lower by financial shares.

Interest Rates: The US 10-year bond yield retreated 4 basis points to close under 1.5% - that is the first close under this level since March 3. The pull back in the longer end yields reflects some easing of inflation fears by investors. It also comes as a US$38 billion auction of the 10-year Treasury notes drew strong demand, partly a reflection of the large volume of cash in the system resulting from quantitative easing. Indeed, traders lent surplus cash (via repos) in record volumes to the Federal Reserve yesterday at a yield of 0.00%.

The US 2-year yield also fell 4 basis points.

Foreign Exchange: The Australian dollar rose to an overnight high of 0.7764 against the US dollar, but then undid these gains to drop towards 0.7730 where it is currently trading. The decline in the AUD reflected an appreciation of the US dollar index at the open of New York's trading session. The AUD/USD has remained in a trading range or consolidation phase for much of the past month. In the near term, it is likely to stay stuck in this range.

Commodities: Gold and oil prices fell but copper and iron ore prices rose.

Australia: Consumer sentiment declined by 5.2% to 107.2 in June, according to the latest Melbourne Institute and Westpac survey. The decline likely reflects some impact from the two-week lockdown in Melbourne, which serves as a reminder that we at still at risk of further virus outbreaks. However, this decline is coming off an 11-year high in April. Sentiment remains high and well above its long-run average.

Sentiment unsurprisingly fell in Victoria, decreasing 7.5% in the month. However, there were also notable declines in sentiment in other states in June: 10.9% in South Australia, 9.0% in Western Australia and 3.9% in Queensland. These falls might reflect their confidence (or lack thereof) in their ability to manage future outbreaks. In contrast, sentiment only declined 1.1% in New South Wales.

All five subcomponents of the headline index declined. The 'time to buy a dwelling' index declined for the seventh consecutive month in June and is now 27.1% lower than its peak in November 2020. Clearly, affordability pressures are biting as dwelling prices continue to surge.

Earlier this week, APRA data for the March quarter showed a modest rise in the share of lending across the loan categories that would generally be considered “riskier” in nature. However, the rise is not large enough to suggest policymakers would be concerned.

Interest-only lending stayed firm at 19.4% of new mortgages, well down on the peaks of 2015 when these loans were nearly 46% as a share of all loans.

New loans with a loan-to-valuation ratio higher than or equal to 90% (that is, a deposit of 10% or less) fell back to 12.6% for investors and was 5.2% for owner occupiers.

These results are not enough to warrant alarm among policymakers. However, since the end of March, investor lending has accelerated. Policymakers will continue to eye this data carefully. We do not expect macroprudential tightening to occur this year, but we would not rule it out for 2022.

Separately yesterday, weekly payroll jobs rose by 0.3% in the fortnight to 22 May, following a 0.1% fall in the previous fortnight. These numbers are an encouraging sign for the May labour force data, which will be released next week. Payrolls are the most timely read we receive on the labour market and have been a helpful guide to the direction of changes in the official measure of employment.

Reserve Bank (RBA) Assistant Governor Christopher Kent spoke yesterday. Kent provided no fresh information on what to expect from the key July Board meeting. At this meeting, the Board will decide the future of the RBA’s yield curve control program and quantitative easing. We expect the 0.1% yield curve target will not be rolled from the April 2024 bond to the November 2024 bond. We also anticipate that quantitative easing will be extended in the form of an open-ended, flexible, purchase program.

Kent reiterated the RBA’s long-held stance that inflation is unlikely to be sustainably within the target range of 2–3% until 2024 at the earliest. Kent also dismissed concerns about rising inflation, noting that inflation expectations do not point to inflation sitting in the central bank target in a sustainable way.

Canada: The Bank of Canada (BoC) maintained its 0.25% policy setting and maintained its quantitative easing programme at $3 billion per week, matching consensus expectations.

China: The prices of goods leaving China’s factories has risen at its fastest pace in 13 years, piling pressure on China’s policymakers as they grapple with a commodities rally. China’s producer price index (PPI) rose 9.0% in May from a year earlier – the biggest year-on-year increase since September 2008. The result was higher than consensus expectations. The index has been rising sharply in recent months – gaining nearly 7% in April – helped by a low base effect after being in negative territory for most of last year.

The cost of raw materials, which form a core part of the PPI, rose sharply last month. For example, prices in the ferrous metal smelting industry rose 38% on a year ago and prices for coal mining added 30% year-on-year.

The Chinese government has emphasised the need to prevent spillover to consumer prices, which remain low. Data yesterday showed consumer prices rose 1.3% in the year to May, the fastest clip in nine months. Month-on-month, consumer prices fell – by 0.2%.

New Zealand: Business confidence fell to minus 0.4 in June, from 1.8 in May. Activity indicators were mixed in the month. Investment intentions jumped 6 points, consistent with a strong lift in capacity utilisation. However, employment intentions eased. Further, inflation expectations continued to lift - at 2.33%, they are close to the Reserve Bank of New Zealand’s 2% target mid-point.

United Kingdom: Bank of England Chief Economist Haldane raised his concerns over the risks of higher inflation resulting from current monetary policy settings. He also suggested that the UK economy could move from recovery to boom as support measures gain traction.

United States: Job openings in April soared to a record 9.3 million, as the US economy rapidly recovered from its pandemic depths. Openings were well above the 8.3 million in March that itself was a new high going back to 2000.

Federal Reserve policymakers closely watch the JOLTS numbers for indications of labour market slack, though they run a month behind the more widely publicised non-farm payrolls count.

Today's key data and events:

JN PPI May y/y exp 0.5% prev 0.7% (9:50am)

AU Consumer Inflation Expectations Jun prev 3.5% (11:00am)

EZ ECB Monetary Policy Meeting prev 0.00% (9:45pm)

US CPI May (10:30pm)

Headline Index m/m exp 0.4% prev 0.8%

Headline Index m/m exp 4.7% prev 4.2%

Core Index Ex Food & Energy m/m exp 0.5% prev 0.9%

Core Index Ex Food & Energy y/y exp 3.5% prev 3.0%

US Initial Jobless Claims Jun 5 exp 370k prev 385k (10:30pm)

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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