

Monday, 10 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,081	0.3%	Last		Overnight Chg			Australia		
US Dow Jones	34,778	0.7%	10 yr bond	98.36	-0.01			90 day BBSW	0.04	0.00
Japan Nikkei	29,358	0.1%	3 yr bond	99.75	0.00			2 year bond	0.09	0.00
China Shanghai	3,583	-0.7%	3 mth bill rate	99.95	-0.01			3 year bond	0.29	-0.01
German DAX	15,400	1.3%	SPI 200	7,055.0	-4			3 year swap	0.31	-0.01
UK FTSE100	7,130	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.68	-0.02
Commodities (close & change)*			TWI	64.2	-	-	64.4	United States		
CRB Index	207.0	1.7	AUD/USD	0.7746	0.7862	0.7761	0.7852	3-month T Bill	0.01	-0.01
Gold	1,831.24	16.0	AUD/JPY	84.58	85.32	84.72	85.28	2 year bond	0.14	-0.01
Copper	10,423.50	323.8	AUD/GBP	0.5571	0.5617	0.5577	0.5607	10 year bond	1.58	0.01
Oil (WTI)	64.90	0.2	AUD/NZD	1.0739	1.0788	1.0742	1.0780	Other (10 year yields)		
Coal (thermal)	93.90	0.4	AUD/EUR	0.6452	0.6464	0.6430	0.6448	Germany	-0.22	0.01
Coal (coking)	113.25	0.3	AUD/CNH	5.0255	5.0471	5.0078	5.0395	Japan	0.09	0.00
Iron Ore	203.65	-1.5	USD Index	91.3	91.0	90.2	90.2	UK	0.78	-0.02

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: US non-farm payrolls for April came in well below market expectations, helping ease fears about higher inflation and stimulus being tapered too soon.

Major US share market indexes hit record highs. The US dollar tumbled to a two-month low, and the AUD/USD finally pierced a key resistance level to reach a two-month high of 0.7862.

Share Markets: Major US share market indexes climbed to a record on Friday after a disappointing US jobs report eased fears about higher inflation and stimulus being tapered too soon. The S&P 500 index added 31 points (or 0.7%) to hit a record high and the Dow rose 229 points (or 0.7%) to also hit an all-time high. The Nasdaq surged 119 points (or 0.9%).

Interest Rates: US bond yields were mixed; the US 2-year yield eased 1 basis point while the 10-year yield added 1 basis point.

The closing levels disguise the action during the session. The US 10-year bond yield initially reacted to the payrolls data by plunging from 1.58% to 1.46%, but then recovered to close at 1.58%.

The 10-year break-even inflation rose from 2.44% to 2.51% - a fresh high since 2013.

Foreign Exchange: The weaker-than-expected US non-farm payrolls result sent the US dollar index down to a two-month low. The weaker US dollar

helped the Australian dollar lift from a Friday low of 0.7761 and break above key resistance of 0.7825 to reach a high of 0.7862 – the highest since 26 February this year. We flagged in this report that we expected the AUD/USD to breach this key level in the near term, despite three failures to do so over the past three weeks. Demand for the AUD has been strongly underpinned by rising iron ore prices; last Thursday, iron prices pierced US\$200 a tonne to hit a fresh record high.

The next key level the AUD will eye is US 80 cents, but there is some risk AUD/USD could be in for a period of consolidation first.

Commodities: Most commodity prices were higher on Friday night.

COVID-19: Temporary COVID-safe measures have been extended in NSW until 12:01am Monday 17 May. Investigations are ongoing into the source of two locally acquired cases, announced on 6 May.

India reported more than 4,000 deaths for a second day and found 403,736 new cases. New Delhi's lockdown has been extended until May 17.

In the US, new infections last week were their lowest weekly count since September.

Australia: The Reserve Bank (RBA) released its quarterly Statement on Monetary Policy on Friday. It provided insights on the RBA's thoughts around the outlook, including an updated set of forecasts.

The RBA now expects economic growth this year to be better, reflecting the faster economic recovery. GDP growth has been revised up to 4.75% for 2021, from 3.5% previously. The forecast for GDP growth in 2022 remains unchanged at 3.50%.

The forecast profile has been extended to June 2023. Growth is set to slow a little further, to 3.0% for June 2023, but this growth is still above trend.

In the calendar years, GDP growth of 5.25% is slated for 2021 (up from 4.0%), 4.0% for 2022 (up from 3.25%) and 3.25% for June 2023. All three forecasts are above the 20-year average of 2.6%, which speaks volumes about Australia's recovery from the pandemic.

The stronger growth forecasts mean there are revisions to jobs growth also. The RBA now expects the unemployment rate to end this year at 5.0%, down from 6.0% previously. For 2022, the RBA expects the momentum in jobs growth to continue with an unemployment rate of 4.5% forecast for December 2022, down from 5.25% previously. Until recently, a 4.5% rate of unemployment was considered to consistent with full employment in the economy, that is, a rate that would be enough to generate wage and inflation pressures. But earlier this year the RBA suggested the rate consistent with full employment to be in the high 3s to low 4s.

The RBA expects the unemployment rate to have some stickiness to it as the pace of growth tempers. The jobless rate is expected to stay at 4.5% in June 2023, the same rate as in December 2022.

Not surprisingly, with both growth and the labour market stronger, inflation forecasts have also been revised higher, but the uplift in inflation and wages is expected to be only modest.

For December 2021, underlying inflation is expected to be 1.5%, up from 1.25% previously. For December 2022, there is a forecast of 1.75%, from 1.50% previously. For June 2023, underlying inflation is expected to be 2%, which is the bottom of the RBA's inflation target band. The RBA has said it wants to see actual inflation sustained in its target band before hiking the cash rate and it does not see this eventuating before 2024. But with a '2' in front of underlying annual inflation as soon as June 2023 and with activity since the pandemic surprising to the upside, we cannot fully rule out an RBA moving before 2024. Indeed, if growth surprises to the upside, the RBA brings the forecast of 2% for underlying inflation forward to December 2022 (in its "upside scenario"). Much will depend on how

the data evolves.

For wages, growth in the wage price index is expected to pick up to a little under 2% over 2021, before gradually increasing to around 2.25% by mid 2023. For wages to exert more significant upward pressure on inflation, wages growth needs to have at least a '3' in front of it.

China: The services sector expanded at the fastest rate in five months in April, as new business saw strong growth both at home and abroad. The Caixin services purchasing managers' index (PMI) rose to 56.3 in April, from 54.3 in March. This outcome is stronger than the series average of 54.1.

Meanwhile, the Caixin composite output index rose from 53.1 in March to 54.7 in April, signalling a rise in business activity ahead.

Other data on Friday showed that China extended its impressive trade performance in April. Exports accelerated 32.3% in the year to April, as stalled factory production in other countries hit by COVID-19 helped prop up demand for Chinese goods. Imports were also impressive, rising 43.1% from a year earlier, the fastest gain since January 2011. China's trade surplus of US\$42.9 billion was wider than the surplus tipped by consensus.

United States: Non-farm payrolls came in massively under median expectations at 266k jobs versus a projected 1mn. The unemployment rose to 6.1% versus 6.0% expected amid an escalating shortage of available workers. And average hourly earnings were up 0.7% in April versus an expected zero outcome by consensus.

There was more bad news; March's previous payrolls outcome of 916k was revised down to 770k, although February saw an upward revision to 536k from 468k.

The average hourly earnings data is highly volatile month to month, but the pattern is consistent with weakness in employment growth being due in part at least to employers having difficulty finding workers, even with an elevated unemployment rate.

Minneapolis Fed President Neel Kashkari said yesterday that the US labour market remains in a "deep hole" and needs aggressive support to speed its healing from the pandemic.

Today's key data and events:

AU Retail Sales (11:30am)

Nominal Final exp 1.4% prev 1.4%

Volumes exp 0.0% prev 2.5%

AU NAB Business Survey (11:30am)

Conditions prev 25

Confidence prev 15

EZ Sentix Inv Confidence May exp 15.0 prev 13.1 (6:30pm)

US Fed Evans Discusses Economic Outlook (4am)

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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