

Friday, 10 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,370	-1.9%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,879	-0.4%	10 yr bond	98.78		0.03	90 day BBSW	0.01	0.00	
Japan Nikkei	30,008	-0.6%	3 yr bond	99.72		0.02	2 year bond	0.01	0.00	
China Shanghai	3,871	0.5%	3 mth bill rate	99.97		-0.01	3 year bond	0.29	-0.01	
German DAX	15,623	0.1%	SPI 200	7,391.0		25	3 year swap	0.43	-0.01	
UK FTSE100	7,024	-1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.27	-0.03
<b>Commodities (close &amp; change)*</b>			TWI	61.7	-	-	61.4	<b>United States</b>		
CRB Index	218.5	-0.8	AUD/USD	0.7367	0.7394	0.7347	0.7368	3-month T Bill	0.04	-0.01
Gold	1,794.58	5.3	AUD/JPY	81.23	81.25	80.78	80.88	2 year bond	0.21	0.00
Copper	9,369.50	141.0	AUD/GBP	0.5348	0.5351	0.5322	0.5325	10 year bond	1.30	-0.04
Oil (WTI)	68.14	-1.2	AUD/NZD	1.0372	1.0381	1.0355	1.0367	<b>Other (10 year yields)</b>		
Coal (thermal)	175.15	-1.4	AUD/EUR	0.6233	0.6259	0.6219	0.6231	Germany	-0.36	-0.04
Coal (coking)	336.00	22.0	AUD/CNH	4.7559	4.7699	4.7468	4.7522	Japan	0.04	0.00
Iron Ore	131.30	1.7	USD Index	92.7	92.8	92.4	92.5	UK	0.74	-0.01

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

**Main Themes:** Growth concerns due to variants of COVID-19 continued to dominate markets overnight. Equity markets and bond yields in the US ended lower. Meanwhile, the European Central Bank (ECB) finished its 2-day meeting and announced it was moving to “a moderately lower pace” in its pandemic emergency purchase programme (PEPP).

**Share Markets:** US share markets fell in volatile trading as investors remained on edge over the impact from variant concerns on growth. The S&P 500 turned lower in afternoon trading, notching a fourth straight day of losses. At the close the S&P 500 was 21 points lower (or -0.5%). The Dow closed 152 points weaker (or -0.4%) and the Nasdaq ended 38 points softer (or -0.3%).

**Interest Rates:** For the second straight session, the US 10-year bond yield fell by 4 basis points at the close. Overnight, the US 10-year yield ended at 1.30% whilst the 2-year yield was unchanged at 0.21%.

The European Central Bank (ECB) was less hawkish than expected on quantitative easing, causing bond yields in the Eurozone to fall.

**Foreign Exchange:** The US dollar index is down 0.2% on the day. EUR/USD fell from 1.1835 to 1.1805 following the ECB, but later rebounded to 1.1840. The AUD/USD stuck to recent trading ranges.

**Commodities:** The Chinese government released crude from its strategic reserve for the first time with the aim of lowering prices amid surging domestic energy costs. The Chinese stockpiling agency said a “normalised” rotation of supply is important for reserves to play a role “in balancing the market,” indicating that it may continue to release barrels.

**COVID-19:** NSW recorded 1,405 new cases yesterday and five deaths. Parts of regional NSW that have not had a COVID-19 case in 14 days will come out of lockdown at midnight on 11 September. However, trailing restrictions will remain in place.

Victoria recorded 324 new cases yesterday, and the ACT recorded 15. Meanwhile, Queensland recorded 1 new case.

**Australia:** Weekly payroll jobs fell by 0.7% in the fortnight to August 14, following a revised 1.8% fall in the previous fortnight. The largest falls in payroll jobs were in NSW (-1.2%), Queensland (-1.0%), the ACT (-0.7%) and Victoria (-0.6%).

Across industries, accommodation & food services (-4.4%) and wholesale trade (-1.4%) recorded the greatest falls. Education (1.1%) and construction (0.5%) posted the largest increases. Most of the increase in construction payroll jobs came from NSW, as restrictions on the industry eased from July

31.

**China:** The producer price index rose 9.5% over the year to August, up from 9.0% in July. This was the fastest pace in 13 years. China's economy has recovered strongly from last year's coronavirus slump but has been losing steam recently due to the recent Delta outbreak, high raw material prices, tighter property curbs and a campaign to reduce carbon emissions.

Meanwhile, the consumer price index rose 0.8% over the year to August, down from 1.0% in July. Food prices fell by 4.1% and non-food prices rose by 1.9% over the year to August.

**Europe:** After a two-day meeting of its governing council, the ECB has decided to move to "a moderately lower pace" in its €1.85 trillion PEPP from the €80 billion a month level it has run at since March.

The decision to slow the PEPP, the ECB's flagship policy response to the pandemic, follows a strong rebound in eurozone growth and inflation, as rising COVID-19 vaccinations have helped end lockdowns and boosted economic activity.

The ECB's decision is different to other central banks' unwinding of monetary support because the ECB is not planning to end its bond-buying yet and is only "recalibrating" its pace. That is, it is not a tapering decision.

Markets had speculated that there might have been discussion on the end of PEPP, but that was not the case. December was cited by Lagarde as a suitable time for discussion, data dependent.

The ECB affirmed that the Asset Purchasing Programme (APP) would continue (at €20 billion per month for as long as necessary), with continued re-investment, and that long-term financing operations (TLTRO III) would also continue.

The ECB also left its key policy rates on hold (marginal lending facility at zero, deposit facility at -0.50%) and raised forecasts for 2021 growth and inflation to 5.0% and 2.2%, respectively.

**United States:** The number of Americans filing for unemployment benefits kept trending downward last week in a further sign that the US labour market recovery is still on track and the Delta variant is not triggering new layoffs. Weekly jobless claims – a proxy for layoffs – fell to 310,000 last week. This level is a new COVID-19 low and only around 100,000 shy of pre-pandemic levels.

There were a lot of Federal Reserve speakers overnight.

The Federal Reserve's board Governor Michelle Bowman said she expects tapering to begin this year if the data comes in like she expects.

The Federal Reserve Bank of Chicago President Charles Evans said "challenges abound" for the economy, including supply chain and job market bottlenecks. He added that COVID-19 variants have created "high uncertainty."

Meanwhile, Federal Reserve Bank of Dallas President Robert Kaplan warned that the labour supply-demand imbalance will persist "for some extended period of time," so price pressures will broaden.

And Federal Reserve Bank of Atlanta President Raphael Bostic believes the Fed will be able to pull back on its asset buying program this year, though he does not expect a decision to do so will come at the Fed's meeting this month.

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

NZ Card Spending Retail Aug prev 0.6% (8:45am)

NZ Net Migration Jul prev 897 (8:45am)

UK Industrial Production Jul exp 0.4% prev -0.7% (4pm)

US PPI Final Demand Aug y/y exp 8.2%prev 7.8% (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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