Morning report

Thursday, 12 August 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,584	0.3%		Last			Overnight Chg	**Australia**		
US Dow Jones	35,485	0.6%	10 yr bond	98.80			0.01	90 day BBSW	0.02	0.01
Japan Nikkei	28,071	0.7%	3 yr bond	99.67			0.00	2 year bond	0.05	0.00
China Shanghai	3,703	0.1%	3 mth bill rate	99.98			-0.01	3 year bond	0.32	0.01
German DAX	15,826	0.4%	SPI 200	7,503.0			10	3 year swap	0.44	0.00
UK FTSE100	7,220	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.22	0.02
Commodities (close & change)*			TWI	61.6	-	-	61.6	**United States**		
CRB Index	216.7	1.5	AUD/USD	0.7330	0.7389	0.7323	0.7374	3-month T Bill	0.05	0.00
Gold	1,751.70	22.8	AUD/JPY	80.88	81.58	81.11	81.42	2 year bond	0.22	-0.02
Copper	9,495.75	153.5	AUD/GBP	0.5293	0.5328	0.5301	0.5317	10 year bond	1.33	-0.02
Oil (WTI)	69.25	1.0	AUD/NZD	1.0488	1.0487	1.0457	1.0470	**Other (10 year yields)**		
Coal (thermal)	157.35	1.3	AUD/EUR	0.6245	0.6289	0.6252	0.6281	Germany	-0.46	-0.01
Coal (coking)	219.50	1.0	AUD/CNH	4.7549	4.7843	4.7536	4.7754	Japan	0.04	0.01
Iron Ore	162.80	-1.0	USD Index	93.0	93.2	92.8	92.9	UK	0.57	-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: Weaker-than-expected core inflation data in the US drove market sentiment overnight. The US S&P 500 hit a fresh record high, while the US dollar and bond yields fell.

Share Markets: The US S&P 500 advanced by 0.3% following the release of weaker-than-expected core inflation data, reaching a new all-time high. The S&P 500 has now almost doubled from lows seen in March 2020. The NASDAQ fell 0.2% as investors shifted from growth to cyclical stocks.

The ASX 200 rose by 0.3% yesterday to a new all-time high. Futures are pointing to a positive open today.

Interest Rates: US bond yields fell as the inflation outcome reduced concerns around the urgency of the removal of monetary stimulus. The US 2-year yield fell 2 basis points to 0.22%, while the 10-year yield also fell 2 basis points to 1.33%.

The Australian 3-year government bond yield (futures) fell from 0.34% to 0.33% and the 10-year bond yield (futures) fell from 1.22% to 1.21%.

Foreign Exchange: The US dollar fell against all major currencies on the release of the inflation data. The USD Index fell from a high of 93.2 to a low of 92.8, before recovering to 92.9.

The AUD/USD pair rose from a low of 0.7323 to a high of 0.7389, before settling at 0.7374 at the time of writing.

Commodities: Oil recovered some of its recent losses after falls in US crude and gasoline stockpiles were reported in a government report. Gold, copper and coal rose, while iron ore fell.

COVID-19: NSW recorded 344 new cases yesterday, just under the daily peak of 356 recorded on August 10. Of these 344 cases, just 143 were in isolation throughout their entire infectious period. Queensland recorded 4 new cases yesterday and Victoria recorded 20 new cases.

Yesterday, the local government area of Dubbo in regional NSW entered a snap 7-day lockdown. Victoria's current lockdown, which was due to end on August 12, has been extended for a further 7 days.

The lockdown in Cairns came to an end at 4pm yesterday with trailing restrictions still in place.

Australia: Consumer sentiment took a hit in August, as large parts of the country were in lockdown during the survey period. The monthly consumer sentiment index fell 4.4% to 104.1 in August, its lowest level since September 2020.

The survey was undertaken from 2 to 7 August. Large parts of the country were in lockdown for all or part of this period, including NSW, Victoria and Queensland.

While the fall in confidence was significant, the result of above 100 index points indicates that optimists still outweigh pessimists. Sentiment also remains robust compared to the lows recorded in

2020.

By state, sentiment fell most in Victoria (-10.8%), followed by NSW (-4.1%), Queensland (4.0%) and Tasmania (-0.4%). Confidence is weakest in NSW. Conversely, confidence increased in SA (9.1%) and WA (4.1%).

Affordability pressures continued to bite amid the surge in dwelling prices. The ‘time to buy a dwelling’ index fell by 8.3% in August to 88.9.

Lockdowns are likely to continue to weigh on confidence. A contraction in economic activity in the September quarter is effectively locked in. However, as we have seen during previous lockdowns, the economy tends to recovery very quickly once lockdowns are lifted. This data supports that view, as consumers appear to remain resilient.

United States: CPI inflation rose by 0.5% in July, in line with market expectations. This was down from the previous month of 0.9%. The outcome took annual inflation to 5.4%, equal to the annual pace in the prior month.

Markets focussed on the outcome of core inflation — CPI inflation excluding the volatile items of food and energy. This increased by 0.3% in July, below market expectations of 0.4%. The result was down from 0.9% in the prior month. The annual core inflation growth was 4.3%, down from 4.5% in the month prior.

While some moderation of recent price growth is being seen, this is still a strong inflation outcome. Pent up demand as the economy reopens and various supply constraints continue to feed through into increased price pressures.

The July increase was driven by growth in prices for food, energy, shelter and new vehicles. Partly offsetting these increases were declines in the cost of airfares and car insurance.

Some unwinding of previous cost pressures, specifically a slowing in the pace of price growth of used vehicles and trucks drove the moderation in core inflation.

Several members of the Federal Open Market Committee spoke yesterday.

Dallas Fed president Kaplan noted that the CPI outcome was consistent with the Federal Reserve’s outlook and that the “Fed still expects a broadening of inflation pressures into next year.” He noted that the Fed was “in a much better place on taper than it was two months ago.”

Kansas City Fed president George noted that the “time has come to dial back the settings” and supported a transition from extraordinary monetary policy settings given the recovery is underway. She did not provide specifics on the form or pace of that transition.

Conversely, Chicago Fed president Evans provided a more cautious view. He noted that while the US economy was “well on our way” to progress on the recovery, he would “like to see a few more employment reports” before making a call on winding back monetary stimulus.

He would be “very regretful if we sort of claim victory on averaging 2% and then find ourselves in 2023 with about a 1.8% inflation rate … That would be a challenge for our long run framework.”

Today’s key data and events:

NZ REINZ House Sales Jul y/y prev 6.2% (7am)

AU MI Cons. Inflation Expectations Aug prev 3.7% (11am)

UK GDP Q2 Prel. exp 4.8% prev -1.6% (4pm)

UK Industrial Production Jun exp 0.3% prev 0.8% (4pm)

EZ Industrial Production Jun exp -0.2% prev -1.0% (7pm)

US PPI Final Demand Jul exp 0.6% prev 1.0% (10:30pm)

US Initial Jobless Claims Aug 7 exp 375K 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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