

Thursday, 15 July 2021

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 7,355 | 0.3% | Last | | Overnight Chg | | | Australia | | |
| US Dow Jones | 34,933 | 0.1% | 10 yr bond | 98.71 | 0.05 | | | 90 day BBSW | 0.03 | 0.00 |
| Japan Nikkei | 28,608 | -0.4% | 3 yr bond | 99.67 | 0.03 | | | 2 year bond | 0.06 | -0.03 |
| China Shanghai | 3,698 | -1.1% | 3 mth bill rate | 99.97 | 0.00 | | | 3 year bond | 0.32 | 0.02 |
| German DAX | 15,789 | 0.0% | SPI 200 | 7,332.0 | 19 | | | 3 year swap | 0.40 | 0.00 |
| UK FTSE100 | 7,091 | -0.5% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 1.34 | 0.01 |
| Commodities (close & change)* | | | TWI | 62.6 | - | - | 62.4 | United States | | |
| CRB Index | 213.4 | -0.7 | AUD/USD | 0.7447 | 0.7486 | 0.7431 | 0.7481 | 3-month T Bill | 0.04 | 0.00 |
| Gold | 1,827.53 | 19.8 | AUD/JPY | 82.39 | 82.53 | 82.12 | 82.27 | 2 year bond | 0.22 | -0.03 |
| Copper | 9,379.25 | -0.3 | AUD/GBP | 0.5391 | 0.5403 | 0.5371 | 0.5399 | 10 year bond | 1.35 | -0.07 |
| Oil (WTI) | 73.13 | -2.1 | AUD/NZD | 1.0719 | 1.0721 | 1.0619 | 1.0631 | Other (10 year yields) | | |
| Coal (thermal) | 144.30 | 2.3 | AUD/EUR | 0.6322 | 0.6339 | 0.6310 | 0.6320 | Germany | -0.32 | -0.03 |
| Coal (coking) | 207.17 | 0.5 | AUD/CNH | 4.8248 | 4.8381 | 4.8146 | 4.8334 | Japan | 0.02 | -0.01 |
| Iron Ore | 209.00 | -0.9 | USD Index | 92.8 | 92.8 | 92.3 | 92.4 | UK | 0.63 | -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: Congressional testimony from US Federal Reserve Chair Powell and earnings reports drove market sentiment overnight.

Share Markets: Share markets were mixed following comments from Fed Chair Powell reiterating the Fed's expectation that the current increases in inflation are transitory, suggesting that economic stimulus is likely to be maintained. US banks reported mixed earnings results, with Bank of America surprising on the downside while Wells Fargo beat analysts' expectations on some metrics. The S&P 500 rose 0.1% while the tech-heavy NASDAQ fell 0.2%.

In Europe, the Euro Stoxx 50 rose 0.1% while the FTSE 100 fell 0.5%. The ASX 200 rose 0.3%.

Interest Rates: US interest rates fell following the comments from Fed Chair Powell. US 10-year yields fell 7 basis points to 1.35%. US 2-year yields fell 3 basis points to 0.22%.

Australian 10-year yields (futures) fell from 1.35% to 1.30% and 3-year yields (futures) fell from 0.37% to 0.34%.

Foreign Exchange: The US dollar fell following the comments from Fed Chair Powell. The US Index fell from a high of 92.8 to a low of 92.3, before recovering to 92.4.

The AUD/USD pair rose in line with a lower US dollar. The pair rose from a low of 0.7431 to a high

of 0.7486, before falling back slightly to 0.7481.

Commodities: Oil prices fell following data showing higher inventories in the US and an increase in US production during the peak summer season. Gold rose to its highest level in four weeks as inflation concerns boosted demand.

COVID-19: NSW recorded 97 new cases of COVID-19 yesterday. The Premier Gladys Berejiklian announced that the lockdown will be extended until 'at least' July 30. Restrictions will also remain in place on regional areas. Victoria recorded 8 new COVID-19 cases.

Australia: Consumer sentiment held up in July, despite the lockdowns across NSW. The monthly consumer sentiment index rose 1.5% in July to 108.8. The survey was conducted over the week of July 5-9, during the lockdown in NSW, but before tighter restrictions were announced on July 9.

Sentiment dropped sharply in NSW, down 10.2%. However, this was more than offset by strong recoveries in Victoria, up 15.0%, and WA, up 11.5%, as both states emerged from lockdowns.

So far, confidence has held up around the country, despite the setbacks in NSW. However, it is possible that respondents were expecting a shorter lockdown in NSW than is now unfolding.

While there may be some disruptions in the near term, there is still strong underlying momentum in

the economy which will remain supportive of consumer confidence. Looking through the NSW lockdown, we expect jobs growth to continue and dwelling prices to keep marching higher. Plus, there is still significant ongoing policy support and vaccines will, eventually, be rolled out more broadly.

Europe: Eurozone Industrial Production fell by 1.0% in May following a 0.8% rise in the prior month. This was below consensus expectations of a 0.3% fall. Growth was hampered by disruptions to global supply chains as economies begin to reopen.

New Zealand: The Reserve Bank of New Zealand (RBNZ) kept the cash rate on hold at 0.25%. However, the central bank announced it will “halt” additional asset purchases under the Large-Scale Asset Purchase (LSAP) program by July 23. The Funding for Lending Programme was left unchanged. The RBNZ noted as the New Zealand economy continues to recover, the strength of demand and rising capacity pressures have increased the risk of more persistent inflation pressures. The RBNZ concluded that some policy stimulus was still needed to meet its inflation and employment goals but removing some stimulus would reduce the risk of an overshoot. We now expect the RBNZ will begin increasing the cash rate in August.

United Kingdom: UK CPI rose 0.5% in June, above consensus expectations of a 0.2% increase.

United States: US producer prices rose by their highest annual growth rate in more than 10 years, with the Producer Price Index (PPI) up 7.3% over the year to June. This was above consensus expectations of 6.7% growth. Higher commodity prices and increased labour costs drove the increase.

The US Federal Reserve released its Beige Book overnight, which reported that the US economy continues to strengthen, “The US economy strengthened further from late May to early July, displaying moderate to robust growth.”

Wages increased moderately, with wages of low-wage workers growing at above-average rates. Employers noted difficulty in finding suitable labour, in addition to workers leaving jobs at an above-average rate.

The report also noted concerns from businesses regarding price pressures, “While some contacts felt that pricing pressures were transitory, the majority expected further increases in input costs and selling prices in the coming months.”

US Federal Reserve Chair Powell provided testimony to Congress on the Federal Reserve's response to the coronavirus pandemic. He reiterated the message that the recovery hasn't progressed enough for the US Fed to reduce its monetary stimulus, noting: “The standard of ‘substantial further progress’ is still a ways off.”

Chair Powell spoke of the recent increases in inflation, noting, “Strong demand in sectors where production bottlenecks or other supply constraints have limited production has led to especially rapid price increases for some goods and services, which should partially reverse as the effects of the bottlenecks unwind.”

In response to questions from House members regarding inflation concerns, Chair Powell noted that the Fed would not react to temporary increases in inflation, “By inflation, we mean year after year after year prices go up... If something is a one-time price increase... you wouldn't react to something that is likely to go away.”

Chair Powell also noted that while conditions in the labour market have continued to improve, the recovery was still far from complete.

Today's key data and events:

AU Cons. Inflation Expectations Jul prev 4.4% (11am)
 AU Labour Force Jun (11:30am)
 Employment Change exp 45.0k prev 115.2k
 Participation Rate exp 66.3% prev 66.2%
 Unemployment Rate exp 5.0% prev 5.1%
 CH GDP Q2 y/y exp 12.7% prev 18.3% (12pm)
 CH Retail Sales Jun y/y exp 10.8% prev 12.4% (12pm)
 CH Ind. Production Jun y/y exp 16.0% prev 17.8% (12pm)
 UK ILO Unemploy. Rate May exp 4.7% prev 4.7% (4pm)
 US NY Empire Mfg Jul exp 18.0 prev 17.4 (10:30pm)
 US Phil. Fed Index Jul exp 28.0 prev 30.7 (10:30pm)
 US Intial Jobless Claims w/e Jul 10 exp 350K prev 373K (10:30pm)
 US Import Price Index Jun exp 1.1% prev 1.1% (10:30pm)
 US Ind. Production Jun exp 0.6% prev 0.8% (11:15pm)

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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