

Friday, 16 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,336	-0.3%	Last		Overnight Chg			Australia		
US Dow Jones	34,987	0.2%	10 yr bond	98.72	0.01			90 day BBSW	0.03	0.00
Japan Nikkei	28,279	-1.2%	3 yr bond	99.67	0.00			2 year bond	0.06	0.00
China Shanghai	3,736	1.0%	3 mth bill rate	99.97	0.00			3 year bond	0.29	-0.03
German DAX	15,630	-1.0%	SPI 200	7,237.0	-6			3 year swap	0.42	-0.01
UK FTSE100	7,012	-1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.29	-0.05
Commodities (close & change)*			TWI	62.4	-	-	62.4	United States		
CRB Index	212.2	-1.1	AUD/USD	0.7481	0.7487	0.7411	0.7424	3-month T Bill	0.04	-0.01
Gold	1,829.47	1.9	AUD/JPY	82.27	82.34	81.43	81.53	2 year bond	0.22	0.00
Copper	9,452.75	146.2	AUD/GBP	0.5399	0.5406	0.5363	0.5369	10 year bond	1.30	-0.05
Oil (WTI)	71.65	-1.5	AUD/NZD	1.0631	1.0661	1.0623	1.0630	Other (10 year yields)		
Coal (thermal)	147.10	2.8	AUD/EUR	0.6320	0.6325	0.6279	0.6284	Germany	-0.33	-0.02
Coal (coking)	207.50	0.3	AUD/CNH	4.8334	4.8365	4.7909	4.7977	Japan	0.01	-0.01
Iron Ore	212.20	-1.3	USD Index	92.4	92.7	92.3	92.6	UK	0.66	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: The second day of testimony from the US Federal Reserve Chairman steered markets, as did remarks from other Fed officials. US 10-year bond yields fell sharply. Oil also fell to a four-week low.

Share Markets: US share markets fell after US Federal Reserve Chair Jerome Powell's second day of testimony to Congress remained dovish. The Nasdaq underperformed the other indices, as Amazon and Google dropped from recent all-time highs. The Nasdaq finished 102 points lower (or -0.7%) while the S&P 500 index fell 14 points (or -0.3%). The Dow bucked the trend; it rose 54 points (or +0.2%).

Interest Rates: US 10-year bond yields rose ahead of Powell's testimony, from 1.31% to 1.35%, but then dropped 6 basis points to an overnight low of 1.29% in the aftermath. At the close, the US 10-year bond yield was at 1.30%, near the overnight low, and 5 basis points lower than in the previous trading session. The US 2-year yield ended the session unchanged at 0.22%.

The Australian 3-year government bond yield (futures) traded around 0.34%, while the 10-year yield eked a lower range of 1.27% to 1.32%.

Foreign Exchange: The US dollar advanced against ever G-10 currency except for the safe-haven Japanese yen. The AUD/USD fell from an overnight

high of 0.7487 to a low of 0.7411, which is just above the seven-month low of 0.7410 recorded on July 9. The 0.7410 handle is providing support to the AUD with the AUD/USD lifting off this low at the time of writing.

Commodities: Oil prices slide to a four-week low on Thursday, as the US dollar appreciated and OPEC signalled it may lift oil output soon. OPEC delegates said the United Arab Emirates made significant progress in resolving its standoff with Saudi Arabia. An OPEC monthly report also highlighted that demand for OPEC-produced crude will recover gradually this year and next. Production is expected to exceed pre-virus levels by the second half of 2022, though will experience a first-quarter lull that could see the market return to surplus.

COVID-19: NSW recorded 65 new cases of COVID-19 yesterday, which is down from the previous day's number. Victoria recorded 10 new cases while Queensland recorded 3 new cases. The Victorian State government yesterday announced a snap five-day lockdown to control the recent rise in cases. The lockdown started last night.

New cases have hit a six-month high in Tokyo a little more than a week before the city hosts the Olympics.

In the US, health officials in Missouri asked the state to set up an emergency hospital to handle a surge

in cases linked to delta. Still, top US scientists say most vaccinated Americans are unlikely to need booster shots for months, or even years.

Australia: Jobs grew by 29.1k in June to take the unemployment rate down to 4.9%. This is the first time the unemployment rate has fallen below 5.0% since June 2011 and is the lowest rate in 10 years. Encouragingly, the fall occurred against a rise in the participation rate to a near record high.

Last month's growth was in full-time employment, which rose 51.6k. Part-time employment declined 22.5k.

The current lockdown in NSW will cause some disruption to jobs. However, the impact will be cushioned by support measures, particularly the "JobKeeper Lite" wage subsidy. Importantly, there was also strong momentum in the economy and jobs market leading into the outbreak.

We expect full employment to be reached within the next 12 months and for the unemployment rate to have a '3' in front of it before the end of 2022.

Separately, consumer inflation expectations fell to 3.7% in July, after a 4.4% increase in June. This time last year inflation expectations were around 3.2%.

China: On a quarter-on-quarter basis, GDP grew 1.3% in the June quarter, up from a revised 0.4% expansion in the previous quarter. This result was above consensus expectations for growth of 1.0%.

Compared to a year ago, GDP grew 7.9% in the June quarter, down from 18.3% in the March quarter. The high growth in the March quarter reflected the halt in economic activity in early 2020 after the pandemic erupted in China and forced the government to impose a nationwide lockdown.

Signs of sluggishness in China's economy has stroked expectations that China's policymakers will unleash more policy support to shore up economic activity.

In other data, retail sales grew 12.1% and industrial production rose 8.3% over the year to June, both beating consensus expectations.

United Kingdom: The unemployment rate unexpectedly rose 0.1 percentage point to 4.8% in the three months to May. Employment rose just 25k in this period against consensus expectations for 91k.

The Bank of England's Bailey said they will not rush any rate decision. He admitted that this week's inflation data was stronger than expected but said they will go through the evidence to assess to what is underlying and what is transitory.

United States: US Federal Reserve Chairman Powell acknowledged that inflation is running at uncomfortable levels but defended the Fed's accommodative approach.

In his second day of congressional testimony, he called price developments "unique" and said the central bank is closely watching to see whether rise in inflation is temporary.

He said that inflation is "well above 2%" and that they are uncomfortable with that. But the jump is seen as due to the shock to the system and the reopening in the economy. The challenge is how to react to the pressures. To the extent the strength is "temporary" it would be inappropriate to react to the rise in prices, but to the extent it persists, the Fed would have to re-evaluate the risks that it could be of a longer duration, and that it could impact inflation expectations, and that's what they are monitoring.

Powell also reiterated that reducing bond purchases is still a way off.

Chicago Federal Reserve President Evans said he still thinks a surge in US inflation this year will largely fade away by 2022, though he admitted he is less certain about how quickly it will happen. Evans expects tapering could begin around the end of the year and predicted rate hikes in 2024 or "a little bit earlier." Evans is a Fed voter this year. Louis Federal Reserve President Bullard said it is time to end emergency measures. While acknowledging some of the price pressures are temporary, he is worried that some of the strength may persist into 2022. He does not want any tapering to be on auto pilot, rather retaining flexibility on purchases.

Initial jobless claims fell 26k last week to a new pandemic low of 360k, as companies sought to hire more workers amid a robust US economic recovery.

Industrial production rose 0.4% in June, falling short of consensus expectations for growth of 0.6%. It follows a rise of 0.6% in May. Capacity utilisation rose to a 16-month high of 75.1% in June, from 75.4% in May.

The New York Empire manufacturing index jumped to a record high of 43.0 in July, from 17.4 in June. The rise was a lot sharper than consensus anticipated.

A separate manufacturing survey for Philadelphia was also published last night. However, the Philly Fed business index fell to 30.7 in July, from 21.9 in June.

Today's key data and events:

NZ BusinessNZ Mfg PMI Jun prev 58.6 (8:30am)

NZ CPI Q2 q/q exp 0.7% prev 0.8% (8:45am)

JN Bank of Japan Policy Meeting July (1:30pm)

Policy Balance Rate exp -0.100% prev -0.100%

EZ Trade Balance May exp €8.0bn prev €9.4bn (7pm)

EZ CPI Jun Final y/y exp 1.9% prev 2.0% (7pm)

US Retail Sales Jun exp -0.4% prev -1.3% (10:30pm)

US Business Inventories May exp 0.5 prev -0.2% (12am)

US UoM Cons. Sent. Jul Prel. exp 86.5 prev 85.5 (12am)

US Net TIC Flows May prev US\$101.2bn (6am)

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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