

Tuesday, 20 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,286	-0.8%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	33,962	-2.1%	10 yr bond	98.83	0.08			90 day BBSW	0.03	0.00
Japan Nikkei	27,653	-1.3%	3 yr bond	99.72	0.03			2 year bond	0.05	0.00
China Shanghai	3,709	0.0%	3 mth bill rate	99.97	0.00			3 year bond	0.28	-0.02
German DAX	15,133	-2.6%	SPI 200	7,129.0	-68			3 year swap	0.40	0.02
UK FTSE100	6,844	-2.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.25	-0.04
<b>Commodities (close &amp; change)*</b>			TWI	62.2	-	-	61.8	<b>United States</b>		
CRB Index	205.6	-7.0	AUD/USD	0.7403	0.7399	0.7322	0.7344	3-month T Bill	0.04	-0.01
Gold	1,812.64	0.6	AUD/JPY	81.47	81.42	80.02	80.39	2 year bond	0.22	-0.01
Copper	9,188.50	-203.0	AUD/GBP	0.5377	0.5375	0.5349	0.5370	10 year bond	1.19	-0.10
Oil (WTI)	66.42	-5.4	AUD/NZD	1.0571	1.0589	1.0553	1.0573	<b>Other (10 year yields)</b>		
Coal (thermal)	148.80	2.1	AUD/EUR	0.6269	0.6268	0.6203	0.6224	Germany	-0.39	-0.03
Coal (coking)	208.17	1.8	AUD/CNH	4.7947	4.7942	4.7577	4.7708	Japan	0.02	-0.01
Iron Ore	210.85	-2.7	USD Index	92.7	93.0	92.6	92.8	UK	0.56	-0.07

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 risk-averse mood among investors continued overnight, spurring a sell off in global share markets and lifting demand for bonds. Investors are increasingly worried about the impact of new COVID-19 variants on the economic outlook.

**Share Markets:** US share markets slumped overnight on increased concerns that rising variant infections will hamper the global economic recovery. Escalating tensions between the US and China also hurt sentiment.

The Dow dropped 726 points (or -2.1%), the S&P 500 index declined 69 points (or -1.6%) and the Nasdaq fell 152 points (or -1.1%). Cyclical stocks experienced the sharpest sell off overnight.

The ASX 200 index is likely to open weaker today following the lead from US markets.

**Interest Rates:** The global bond rally heated up, as equity markets sold off. The US 10-year Treasury yield fell 10 basis points to close at 1.19%. This is the lowest close since mid February. During the overnight session, the 10-year yield had fallen to as low as 1.17%. The 30-year bond yield also declined 10 basis points to end the session at its lowest since late January.

US bond yields at the shorter end of the yield curve did not fall as much with the US 2-year yield easing 1 basis point only to close at 0.22%.

The Australian 3-year government bond yield

(futures) fell from 0.33% to 0.28%, while the 10-year yield fell from 1.25% to 1.16% - the lowest since February.

**Foreign Exchange:** The US dollar mostly rose against the major currencies, although the Japanese yen and Swiss franc benefited from safe-haven demand.

The Australian dollar fell further overnight against the US dollar. It fell to an overnight low of 0.7322, which is lower than the previous session's low of 0.7392. Last night's low is the lowest level for the AUD/USD in almost eight months. The recent sell off in the AUD/USD began on July 15 and selling pressures remain. The next key level of support sits at around 0.7240.

We warned on the 20<sup>th</sup> of June (in this report) that the AUD/USD was likely to face selling pressures in the short term and head towards the 70 US cent handle before recovering later this year. The recent fresh sell off in the AUD/USD leaves our short-term view intact.

**Commodities:** Oil prices fell sharply overnight in the wake of the OPEC deal and on worries about the global economic recovery story.

**COVID-19:** The South Australian government yesterday implemented strict new level four restrictions after 3 community transmissions. The restrictions include a ban on indoor dining and mandatory masks indoors.

In NSW, there were 98 new local infections yesterday and a fifth death. In Victoria, Premier Daniel Andrews flagged that the 5-day lockdown would be extended after 12 new cases were recorded.

**Australia:** The Australian economic recovery has been remarkable since the second half of last year, but the current outbreak that began in Sydney is threatening to disrupt the economic expansion. The spillover of NSW's outbreak to Victoria and now South Australia raises the risk that GDP nationally will contract in the September quarter. It would mark the first contraction since the June quarter of last year.

**New Zealand:** The performance of services index lifted 2.3 points to 58.6 in July, which is marginally below the record high recorded in April.

**United Kingdom:** UK house prices continues to record solid growth. Rightmove data showed that prices rose 0.7% in July and accelerated 5.7% in the year to July.

**United States:** The NAHB housing market index edged down to 80 in July, from 81 in June. Homebuilder sentiment nevertheless remains at historically high levels but has been steadily declining since late 2020.

The report continued to comment on supply constraints and high costs, noting a 500% rise in oriented strand board (OSB) prices since early 2020.

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

AU RBA Board Meeting Minutes for July (11:30am)

UK Bank of England's Catherine Mann Testimony (1:30am)

US Housing Starts Jun exp 1590k prev 1572k (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.

**Besa Deda, Chief Economist**

Ph: 02-8254-3251

---

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

**Economist**

Matthew Bunny  
matthew.bunny@banksa.com.au  
(02) 8254 0023

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@banksa.com.au  
0481 476 436

**Research Assistant (Secondment)**

Sonali Patel  
Sonali.patel@banksa.com.au  
(02) 8254 0030

### The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.