Bank of Melbourne

Morning report

Wednesday, 22 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,274	0.4%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	33,920	-0.1%	10 yr bond	98.71		0.01		90 day BBSW	0.01	0.00
Japan Nikkei	29,840	-2.2%	3 yr bond	99.64		0.00		2 year bond	0.01	0.00
China Shanghai	3,788	0.2%	3 mth bill rate	99.98		0.00		3 year bond	0.22	-0.02
German DAX	15,349	1.4%	SPI 200	7,225.0		-14		3 year swap	0.42	0.00
UK FTSE100	6,981	1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.27	-0.03
Commodities (close & change)*			TWI	60.7	-	-	60.9	**United States**		
CRB Index	218.3	0.2	AUD/USD	0.7255	0.7283	0.7222	0.7230	3-month T Bill	0.02	-0.01
Gold	1,774.51	10.3	AUD/JPY	79.37	79.84	78.86	78.98	2 year bond	0.21	0.00
Copper	9,034.15	-273.1	AUD/GBP	0.5311	0.5321	0.5290	0.5292	10 year bond	1.32	0.01
Oil (WTI)	70.49	0.3	AUD/NZD	1.0335	1.0359	1.0309	1.0321	**Other (10 year yields)**		
Coal (thermal)	172.20	-1.7	AUD/EUR	0.6187	0.6206	0.6160	0.6165	Germany	-0.32	0.00
Coal (coking)	389.00	-1.0	AUD/CNH	4.7036	4.7158	4.6853	4.6872	Japan	0.04	-0.01
Iron Ore	94.50	1.8	USD Index	93.2	93.3	93.1	93.2	UK	0.81	0.01

Data as at 7:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The upcoming Federal Open Market Committee (FOMC) meeting and concerns around China's property market drove market sentiment. US equities finished slightly lower while European equities gained. US bond yields rose slightly and the AUD was lower.

Share Markets: US markets finished lower on the day as investors await tomorrow's update from the FOMC meeting. Concerns around China's property market also weighed on risk sentiment.

The S&P 500 finished 0.1% down while the NASDAQ rose 0.2%. European markets had risen earlier in the day, with the Euro Stoxx 50 up 1.3%.

The ASX 200 rose 0.4%. Futures are pointing to a lower open today.

Interest Rates: The US 10-year yield rose 1 basis point to 1.32%. The 2-year yield was broadly unchanged at 0.21%.

The Australian 10-year government bond yield (futures) fell 1 basis point to 1.29%, while the 3-year bond yield (futures) were unchanged at 0.37%.

Foreign Exchange: The US dollar was broadly unchanged against a basket of major currencies. The USD Index ranged between 93.1 and 93.3 before settling at 93.2, around where it opened.

The AUD/USD pair fell from a high of 0.7283 to a low of 0.7222, before recovering slightly to trade around 0.7230 at the time of writing.

Commodities: Gold increased on the day. Oil was up slightly, while coal fell. Iron ore steadied but remained in the mid $90s.

COVID-19: NSW recorded 1,022 new cases yesterday and ten deaths. The local government areas of Byron, Kempsey and Tweed entered a snap 7-day lockdown.

A 'friend bubble' was announced by the NSW government yesterday where children under the age of 18 can visit their friends' houses. Each child can choose two other children to be a part of their social bubble. Everyone must live within 5km of each other or in the same LGA. All adults in the households must be fully vaccinated.

The NSW construction industry will return to 100% capacity from 27 September. The rule limiting construction sites to 50% capacity if they have any unvaccinated workers will be removed. All constructions sites will be able to have one person per four square metres. However, construction workers from the 12 LGAs of concern will only be allowed to leave their LGA for work if they are vaccinated.

Meanwhile, in Victoria the construction industry has been forced to shut down for the next two weeks after a compliance blitz reportedly found three in four Victorian construction sites were breaking COVID-19 safety rules. The Victorian government has also mandated vaccinations for the industry.

Australia: The Reserve Bank (RBA) pushed ahead with its plans to taper bond buying at its 7 September meeting, reducing purchases to $4 billion per week, while also delaying its intended review of purchases from November this year to February 2022.

The minutes from the meeting released yesterday were mostly light on new information although did provide some insight into the RBA's decision.

The Board considered keeping purchases at $5 billion per week but decided to reduce the rate of purchases because fiscal policy is the more appropriate tool to respond to the Delta outbreak. Plus, the economy is expected return to its pre-Delta path by mid 2022.

It was also flagged that several other central banks have begun tapering. Plus, the RBA's bond buying program is "expanding faster relative to the stock of bonds outstanding than that of many other central banks". The RBA has previously outlined the actions of other central banks is an important determinant for the bond buying program.

The RBA continued to reiterate conditions are not expected to warrant a rate hike before 2024 and in a speech last week the Governor pushed back against market expectations of rate hikes in 2022 and early 2023.

We expect a strong rebound in activity next year. However, there is a possibility that the setback from the Delta disruption will push out the when the RBA would have otherwise hiked the cash rate. Uncertainty remains elevated. Much will depend on the timing and pace of the rebound in the labour market.

Separately, the ANZ-Roy Morgan weekly consumer confidence index remained virtually unchanged at 103.3 in the week ending 19 September.

China: Concerns around the potential collapse of a large property developer, Evergrande, continued to impact markets. It was reported that the company missed interest repayments to some of its banking creditors. Investors will continue to monitor any developments and potential actions from Chinese policymakers closely.

Eurozone: The OECD raised European growth forecasts for 2021 and 2022 in its interim economic outlook. Strong policy support and increased vaccinations will underpin a quicker rebound in economic activity. However, the OECD noted that "the recovery remains very uneven, with strikingly different outcomes across countries."

Riksbank, Sweden's central bank, left its policy rate on hold at 0.0%, as was widely expected.

New Zealand: Credit card spending plunged 14.3% in August, following a revised 0.2% fall in July. Over the year, credit card spending fell 6.3%. The recent Delta outbreak caused the large slump in spending, as the country entered a nationwide lockdown mid-way through August.

United States: Housing starts rose to 1.615 million in August, up from 1.554 million in July. This was above consensus expectations of 1.550 million. Separately, building permits increased to 1.728 million in August, from 1.630 million in July. This was also above consensus expectations of 1.600 million. The increase in housing starts reflected strength in the multifamily segment, including medium and high-density housing such as apartments. Single-family dwelling starts were weaker over the month. While some supply constraints, such as high lumber prices, have recently eased, costs of labour and other building materials remain high. Housing demand remains strong, with the number of homes that have been authorised but not yet started rising to a record high.

Today's key data and events:

AU WBC Leading Index Aug prev -0.1% (10:30am)

AU RBA Deputy Governor & Senior Manager to appear before Parliamentary Committee (10:15am)

AU RBA Assistant Governor to give Speech to Bloomberg (12pm)

EZ Consumer Confidence Sep exp -5.9 prev -5.3 (12am)

US Existing Home Sales Aug exp -1.8% prev 2.0% (12am)

US FOMC Meeting Decision (4am)

Federal Funds rate exp 0.00%-0.25% prev 0.00%-0.25%

JN Bank of Japan Policy Meeting (Time TBC)

Policy Balance Rate exp -0.10% prev -0.10%

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.

Jarek Kowcza, Senior Economist

Ph: 0481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

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

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
0481 476 436

Research Assistant (Secondment)
Sonali Patel
sonali.patel@bankofmelbourne.com.au
(02) 8254 0030