Morning report

Thursday, 23 September 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,297	0.3%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	34,258	1.0%	10 yr bond	98.73		0.01		90 day BBSW	0.02	0.00
Japan Nikkei	29,639	-0.7%	3 yr bond	99.63		-0.01		2 year bond	0.01	0.00
China Shanghai	3,803	0.4%	3 mth bill rate	99.97		-0.01		3 year bond	0.22	0.00
German DAX	15,507	1.0%	SPI 200	7,290.0		14		3 year swap	0.42	0.00
UK FTSE100	7,083	1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.26	-0.02
Commodities (close & change)*			TWI	60.9	-	-	60.7	**United States**		
CRB Index	221.8	3.5	AUD/USD	0.7230	0.7297	0.7224	0.7239	3-month T Bill	0.03	0.00
Gold	1,768.16	-6.3	AUD/JPY	78.98	79.95	78.85	79.47	2 year bond	0.24	0.02
Copper	8,976.50	-57.6	AUD/GBP	0.5292	0.5333	0.5291	0.5316	10 year bond	1.30	-0.02
Oil (WTI)	72.23	1.7	AUD/NZD	1.0321	1.0351	1.0309	1.0341	**Other (10 year yields)**		
Coal (thermal)	179.85	3.9	AUD/EUR	0.6165	0.6210	0.6163	0.6192	Germany	-0.32	-0.01
Coal (coking)	384.33	-4.7	AUD/CNH	4.6872	4.7076	4.6795	4.6828	Japan	0.04	0.00
Iron Ore	109.60	1.9	USD Index	93.2	93.5	93.0	93.4	UK	0.80	-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: Risk sentiment on equity markets improved after the Federal Open Market Committee (FOMC) indicated that "moderation in the pace of asset purchases may soon be warranted" and debt concerns surrounding Chinese property developer, Evergrande, eased. Equity markets rose, the US dollar was up and US short term bond yields increased.

Share Markets: Risk sentiment on equity markets improved following the FOMC outcome and news that Chinese property developer, Evergrande, may soon receive assistance from Chinese policymakers.

The S&P 500 increased by 1.0%, the biggest one day increase since July. The NASDAQ also rose 1.0%. Earlier in the day, European markets rose, with the FTSE 100 up 1.5%.

The ASX 200 was up 0.3%. Futures are pointing to a further increase this morning.

Interest Rates: Short term US interest rates increased following updated projections from FOMC members, as published in the Fed's 'dot plot.' The median expectations from officials for the Federal funds rate in 2022 rose from 0.125% to 0.25%. Median projections for 2023 rose from 0.625% to 1.0%.

The US 2-year bond yield increased 2 basis points to 0.24%, while the 10-year bond yield fell 2 basis points to 1.30%.

The Australian 10-year government bond yield (futures) fell 1 basis point to 1.28% and the 3-year government bond yield (futures) was broadly unchanged at 0.37%.

Foreign Exchange: The US dollar increased against a basket of major currencies. The USD Index rose from a low of 93.0 to a high of 93.5, before retracing slightly to 93.4.

The AUD/USD pair ranged between a low of 0.7224 and a high of 0.7297, before settling not far from where it opened at 0.7239.

Commodities: Iron ore recovered and is back above $100. Oil was up, while gold and copper both fell.

COVID-19: NSW recorded 1,035 new cases yesterday and five deaths.

Meanwhile, Victoria recorded 628 new cases and three deaths.

The ACT recorded 17 new cases and Queensland recorded 1 new case.

Australia: Reserve Bank (RBA) Assistant Governor Bullock gave a speech yesterday on "The Housing Market and Financial Stability". She noted that housing credit is currently growing at an annualised rate of around 7% and that data suggests growth could peak at around 11% early next year. Record low interest rates and government stimulus measures, such as HomeBuilder, are important factors driving strength in the housing market.

On financial stability, the Assistant Governor reiterated that the RBA is closing watching developments in household lending. While banks currently have strong balance sheets and lending standards are being maintained, there is a risk that households will become increasingly indebted. High levels of debt could pose risks to the economy in the event of a shock to incomes or a sharp decline in housing prices. Regulators continue to monitor developments and assess whether there is a need to consider macroprudential tools to address these risks. It was noted that if there were a need for such tools, they should be targeted at risks arising from highly indebted borrowers.

Separately, the six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, fell from 1.4% in July to 0.5% in August.

Japan: The Bank of Japan maintained its policy settings, as widely expected. The short-term policy rate and 10-year government bond yield target remained unchanged at -0.1% and 0.0%, respectively.

Deflation in July and a more pessimistic view from the central bank on exports and production reinforced market expectations that it will maintain existing stimulus measures for longer than other major central banks.

Eurozone: Consumer confidence rose to -4.0 in September, up from -5.3 in August. This was above consensus expectations of -5.9. Confidence improved as the spread of the Delta variant was controlled, enabling restrictions to ease.

United States: The FOMC signalled that the tapering of bond purchases “may soon be warranted” following the economy making progress towards its maximum employment and inflation goals. Fed Chair Powell noted in his press conference that: “While no decisions were made, participants generally view that so long as the recovery remains on track a gradual tapering process that concludes around the middle of next year is likely to be appropriate.”

His comments suggest that tapering may be announced following the November meeting, with a start soon after that and a conclusion around the middle of 2022.

The inflation outlook was strengthened, with the outlook for inflation in 2022 increased to 2.2%, from 2.1%. The 2023 projection remained unchanged at 2.2%. The statement noted that "Inflation is elevated, largely reflecting transitory factors."

On the economy, the statement noted that: “With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen.”

Existing home sales fell 2.0% in August, following a 2.2% increase in July. This was below consensus expectations of a 1.7% fall. Supply remains tight with inventories low. Demand remains strong, reflecting low interest rates and an improving labour market. However, there are signs that the sector is beginning to settle down and that affordability pressures are impacting buyers.

Today’s key data and events:

AU Weekly Payroll Jobs and Wages w/e 28 Aug (11:30am)
EZ Markit Mfg PMI Sep Prel. exp 60.3 prev 61.4 (6pm)
EZ Markit Services PMI Sep Prel. exp 58.5 prev 59.0 (6pm)
EZ ECB Publishes Economic Bulletin (6pm)
UK Markit Mfg PMI Sep Prel. exp 59.0 prev 60.3 (6:30pm)
UK Markit Ser. PMI Sep Prel. exp 55.0 prev 55.0 (6:30pm)
UK Bank of England Policy Meeting (9pm)
Bank Rate exp 0.10% prev 0.10%
US Chicago Fed Nat Act Index Aug exp 0.50 prev 0.53 (10:30pm)
US Initial Jobless Claims w/e 18 Sept exp 320k prev 332k (10:30pm)
US Markit Mfg PMI Sep Prel. exp 61.0 prev 61.1 (11:45pm)
US Markit Services PMI Sep Prel. exp 54.9 prev 55.1 (11:45pm)
US Leading Index Aug exp 0.7% prev 0.9% (12am)
US Kansas City Fed Index Sep exp 25 prev 29 (1am)

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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