

Thursday, 24 June 2021

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |        |             |                      |         | Interest rates (close & change) |                      |       |
|--|----------|-------|--|--------|-------------|----------------------|---------|---------------------------------|----------------------|-------|
| S&P/ASX 200                              | 7,298    | -0.6% |  |        | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |                      |       |
| US Dow Jones                             | 33,874   | -0.2% | 10 yr bond                               |        | 98.41       | -0.02                |         | 90 day BBSW                     | 0.03                 | 0.00  |
| Japan Nikkei                             | 28,875   | 0.0%  | 3 yr bond                                |        | 99.50       | 0.00                 |         | 2 year bond                     | 0.07                 | 0.00  |
| China Shanghai                           | 3,738    | 0.2%  | 3 mth bill rate                          |        | 99.97       | 0.00                 |         | 3 year bond                     | 0.44                 | -0.03 |
| German DAX                               | 15,456   | -1.2% | SPI 200                                  |        | 7,170.0     | -29                  |         | 3 year swap                     | 0.45                 | 0.00  |
| UK FTSE100                               | 7,074    | -0.2% | FX Last 24 hrs                           | Open   | High        | Low                  | Current | 10 year bond                    | 1.56                 | -0.03 |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      |        | 62.6        | -                    | -       | 63.0                            | <b>United States</b> |       |
| CRB Index                                | 209.2    | 1.4   | AUD/USD                                  | 0.7555 | 0.7599      | 0.7538               | 0.7578  | 3-month T Bill                  | 0.04                 | 0.00  |
| Gold                                     | 1,778.68 | -0.1  | AUD/JPY                                  | 83.61  | 84.15       | 83.53                | 84.08   | 2 year bond                     | 0.26                 | 0.03  |
| Copper                                   | 9,466.75 | 178.3 | AUD/GBP                                  | 0.5416 | 0.5434      | 0.5400               | 0.5426  | 10 year bond                    | 1.49                 | 0.02  |
| Oil (WTI)                                | 73.31    | 0.2   | AUD/NZD                                  | 1.0753 | 1.0778      | 1.0741               | 1.0752  | <b>Other (10 year yields)</b>   |                      |       |
| Coal (thermal)                           | 126.25   | 1.2   | AUD/EUR                                  | 0.6326 | 0.6353      | 0.6321               | 0.6351  | Germany                         | -0.18                | -0.01 |
| Coal (coking)                            | 172.00   | 0.4   | AUD/CNH                                  | 4.8930 | 4.9194      | 4.8860               | 4.9091  | Japan                           | 0.06                 | 0.00  |
| Iron Ore                                 | 209.60   | 0.2   | USD Index                                | 91.7   | 91.9        | 91.5                 | 91.8    | UK                              | 0.78                 | 0.00  |

Data as at 8:15am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** Two Federal Reserve officials suggested tapering should start within the next few months and rate hikes by late 2022. Their remarks followed a lift to a record high in a key US manufacturing index overnight. US bond yields lifted and most key share markets ended lower.

**Share Markets:** US share markets fell modestly after two US Federal Reserve officials advocated for tapering within the next few months and a rate hike by late next year. The S&P 500 drifted between gains and losses throughout the day amid light volume. At the close, the S&P 500 was down 5 points (or -0.1%). The Dow closed 71 points weaker (or -0.2%) and the Nasdaq rose 18 points (or +0.1%).

**Interest Rates:** US Treasury yields closed higher after hawkish remarks from two Federal Reserve officials. The US 2-year yield firmed 3 basis points while the 10-year yield increased 2 basis points.

The Australian 3-year government bond yield (futures) is unchanged at 0.50% while the 10-year yield rose from 1.58% to 1.60%.

**Foreign Exchange:** The US dollar was mixed against the G-10 basket of currencies. Against the US dollar, AUD initially rose from just under 0.7540 to 0.7599 before falling to 0.7567.

**Commodities:** Brent oil futures rose to a three-year high. West Texas Intermediate oil futures also closed higher. Gold ended the session lower.

**COVID-19:** NSW recorded a further 16 new COVID cases yesterday. Tighter restrictions have been introduced in response to the growing outbreak. Victoria, Queensland, South Australia and Western Australia have closed their borders to all or parts of New South Wales.

**Australia:** Reserve Bank (RBA) Assistant Governor Ellis spoke yesterday, although shed little new information on the RBA's policy stance. Ellis noted the economy is moving from the recovery to expansion phase. She reiterated the RBA is committed to maintaining highly supportive monetary conditions to support a return to full employment and inflation consistent with the target. She also flagged that monetary policy support is enabling "any structural adjustments" that might be needed in the wake of the pandemic.

**Europe:** The Eurozone purchasing managers' index (PMI) rose from 64.4 in May to 64.9 in June. The services PMI rose from 55.2 to 58.0 and the composite index lifted to a record high of 59.2 in June. Markit said the overall economy is expanding at the fastest pace in fifteen years.

**United States:** Atlanta's Federal Reserve President, Raphael Bostic, expects the Fed will tighten by the end of next year and could decide to reduce bond purchases in the next few months in response to the "upside surprises in recent data points". Bostic said he expected a rate hike in 2022 and two

hikes in 2023. Bostic anticipates the recent surge in inflation will probably last longer than expected but should ease after this year.

Dallas's Federal Reserve President, Robert Kaplan, Kaplan echoed his colleague, saying he's forecasting an increase next year and calling for tapering "sooner rather than later."

Comments from the Federal Reserve's Michelle Bowman's comments were more moderate. She sees the economy as above its pre-pandemic peak but the labour market still far from target.

New home sales fell 5.9% in May to a one-year low, hindered by higher home prices. The median sales price rose 2.5% to a new record high of \$374,400. On a year ago, home sales are up 9.2%. The market for new home is being supported by a dearth of previously owned houses. But there are signs that tailwind is weakening. A report from the National Association of Realtors earlier this week showed sales of existing houses fell for a fourth straight month in May. Builders have not been able to take advantage of the inventory squeeze because of shortages of lumber and other raw materials.

The Markit PMI for manufacturing beat consensus expectations (61.5), rising from 62.1 in May to a record high of 62.6 in June. However, the services and composite PMIs declined in June and fell short of consensus expectations. The services PMI fell from 70.4 in May to 64.8 in June and the composite PMI fell 4.8 points to 63.9.

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

JN PPI Services y/y May exp 1.5% prev 1.0% (9:50am)  
AU ABS Business Conditions and Sentiments (11:30am)  
EZ ECB Publishes Economic Bulletin (6:00pm)  
UK BoE Policy Meeting (9:00pm) US Durable Goods  
Orders May exp 2.8% prev -1.3% (10:30pm)  
US GDP T Q1 annualised exp 6.4% prev 6.4% (10:30pm)  
US Initial Jobless Claims Jun 19 exp 380k prev 412k  
(10:30pm)  
US Kansas City Fed index Jun exp 24 prev 26 (1:00am)

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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