Morning report

Friday, 25 June 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,275	-0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,197	1.0%	10 yr bond	98.44		0.02		90 day BBSW	0.03	0.00
Japan Nikkei	28,875	0.0%	3 yr bond	99.52		0.00		2 year bond	0.06	-0.01
China Shanghai	3,738	0.0%	3 mth bill rate	99.96		0.00		3 year bond	0.43	-0.01
German DAX	15,589	0.9%	SPI 200	7,228.0		51		3 year swap	0.45	0.00
UK FTSE100	7,110	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.57	0.00
Commodities (close & change)*			TWI	63.0	-	-	63.2	**United States**		
CRB Index	209.5	0.3	AUD/USD	0.7578	0.7592	0.7566	0.7587	3-month T Bill	0.04	0.00
Gold	1,775.17	-3.5	AUD/JPY	84.08	84.17	83.88	84.12	2 year bond	0.27	0.01
Copper	9,403.75	-63.0	AUD/GBP	0.5426	0.5455	0.5419	0.5449	10 year bond	1.49	0.01
Oil (WTI)	73.28	0.0	AUD/NZD	1.0752	1.0755	1.0726	1.0743	**Other (10 year yields)**		
Coal (thermal)	124.90	2.7	AUD/EUR	0.6351	0.6359	0.6342	0.6358	Germany	-0.19	-0.01
Coal (coking)	172.00	0.0	AUD/CNH	4.9091	4.9134	4.8987	4.9090	Japan	0.06	0.00
Iron Ore	206.60	-0.1	USD Index	91.8	91.9	91.7	91.8	UK	0.74	-0.04

Data as at 9:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The announcement that US President Biden had secured the framework for an infrastructure deal was the biggest influence on markets overnight. US share markets rallied to new highs. US bond yields and the US dollar also rose.

Share Markets: US share markets were boosted on optimism the infrastructure deal will accelerate the US economic recovery. The S&P 500 index jumped 25 points (or +0.6%) to a record high. The Nasdaq jumped 98 points (or +0.7%) to also hit a new record high. The Dow rose 323 points (or +1.0%). Financial stocks also rallied on the major banks in the US passing the Fed's stress tests.

Interest Rates: US Treasury yields rose on the news of the infrastructure deal. The US 2-year yield and 10-year yield each rose by 1 basis point.

The Australian 3-year government bond yield (futures) was stuck at around 0.48%, while the 10-year yield fell from 1.59% to 1.56%.

Foreign Exchange: The US dollar index appreciated after news of the infrastructure deal. It rose from around 91.65 to a high of 91.90 before erasing some of the gains.

The GBP was one of the biggest movers against the USD after the Bank of England surprised markets with its dovish tilt. The GBP/USD exchange rate dropped sharply from 1.3982 to a low of 1.3890 before settling near 1.3920.

The Australian dollar stuck to a narrow trading range of 0.7566 to 0.7592 and trading choppily within that range.

Commodities: Commodity prices were mixed overnight. Oil was steady and gold fell.

COVID-19: Prime Minister Scott Morrison has proposed this morning to arrange for a dedicated quarantine facility at a military barracks north-east of Brisbane's CBD. News reports suggest the PM is also considering Jandakot Airport, about 20km south of Perth's CBD, as a possible quarantine site. It is a significant development because state premiers and medical experts have been calling for a shift away from hotel quarantine systems for some time.

Yesterday NSW recorded 11 new cases and NSW Premier Gladys Berejiklian said NSW was facing its "scariest period" of transmission in the pandemic so far. There were also 2 new cases reported in Melbourne.

Australia is also one step closer to approving Moderna's COVID-19 vaccine, after Australia's medical regulator decided the company can now apply for provisional registration.

Australia: The Australian Bureau of Statistics published its latest business conditions and sentiments survey. It found more businesses are reporting an improvement in revenues since the height of the pandemic, although Victoria's recent lockdown has caused some disruption in the June data.

More businesses are also finding it easier to meet their financial commitments. Indeed, 41% of businesses expect it to be easy or very easy to meet their financial commitments over the next three months, which is a vast improvement from last year.

The survey suggests the jobs market will tighten further with 8% of businesses reporting a rise in the number of employees and 11% of businesses expecting to lift staffing levels next month.

Reports of labour shortages and difficulties in finding suitable labour have become louder. In June, 19% of employing businesses reported that they did not have enough employees based on current operations, up from 12% three months ago.

There are also 27% of businesses in June reporting they were having difficulty finding suitable staff to fill jobs.

A high share of businesses surveyed (74%) said there was a lack of job applicants.

Total household wealth rose 4.3% in the March quarter to reach a new record. Over the year, growth was 15.3% - the strongest growth in 11 years. Wealth per capita also rose to a record high of $492,055. The continued growth has been driven by higher residential property prices, support from government incentives and a recovery in the labour market.

The tensions between Australia and China continue. Yesterday, China said it is seeking World Trade Organisation rulings on the potential dumping of goods by Australia. Reports of lower-than-anticipated selling of Chinese strategic reserves continues to provide support for recently softer but still strong prices for bulk and industrial commodities.

Europe: Germany's IFO survey beat consensus estimates. The expectations index rose from 102.9 in May to 104.0 in June.

United Kingdom: The Bank of England (BoE) Monetary Policy Committee (MPC) met overnight. The BoE warned against tightening too early, toughening its language on the need to maintain stimulus. The minutes of the MPC were more dovish than markets expected.

The BoE sought to calm fears about inflation, which is expected to exceed 3% in coming months, saying the surge in prices was "transitory" and should not affect monetary policy. The MPC signalled that it would wait for inflation to subside rather than take action as it stuck with its exceptionally loose policy approach.

The MPC voted unanimously to keep interest rates at 0.1% and by a margin of 8 to 1 to stick to the programme of asset purchases until the end of the year, which is set to raise the total amount of quantitative easing to £895 billion.

United States: Joe Biden reached an agreement with a bipartisan group of senators on a $579 billion infrastructure plan that would fulfill one of his top priorities. Passage is by no means assured: The bill will move in tandem with a much larger package of spending and tax increases that Republicans oppose. House Speaker Nancy Pelosi said the House won't consider the former without taking up the latter, which Democrats will attempt to push through on their own. Progressives are irked the compromise doesn't include some of their priorities, and GOP conservatives have yet to sign on too.

New orders for durable goods increased 2.3%, driven by a 7.6% surge in orders for transportation equipment. The gain follows a fall in April of 0.8%. Excluding transportation, new orders rose 0.3%. And excluding defence, new orders rose 1.7%. The data demonstrates that US manufacturers are still expanding rapidly, but widespread shortages of supplies and labour are said to be preventing them from growing even faster.

A recent downward trend in worker filings for unemployment benefits stalled in mid June amid other signs the labour market continues to gradually recover. Initial jobless claims, a proxy for layoffs, moved slightly lower last week to 411,000, from an upwardly revised 418,000 the prior week, when claims rose. The 4-week moving average for claims, which smooths out volatility in the weekly figures, rose slightly off a pandemic low to 397,750.

While last week's initial jobless claims were higher than projected and claims overall remain above pre-pandemic levels, their downward trajectory, along with a pickup in hiring, a falling unemployment rate and elevated consumer confidence, points to an improving labour market.

Growth in GDP for the March quarter was unchanged from the two previous estimates. The US economy grew at a solid rate of 6.4% in the first three months of the year, setting the stage for what may be the strongest year for the US economy in seven decades (if the consensus among economists proves correct). The pace of GDP in the March quarter is an acceleration from the 4.3% pace of the

December quarter of last year.

The Kansas City Fed index improved by one point to 27 in June and beat consensus expectations.

Wall Street's biggest banks easily cleared the Federal Reserve's stress tests. Firms are now officially free from restrictions that the regulator put on dividends and share repurchases last year, setting the stage for a deluge of payouts and buybacks after results showed the industry built up a stockpile of cash during the pandemic. Early estimates indicate the six largest lenders, including JPMorgan, BofA and Citi, could return more than US$140 billion to shareholders.

Several US Federal Reserve speakers spoke overnight. James Bullard expects a rate hike by the end of 2022 and reiterated his concerns that rising prices "may surprise further to the upside" as the US economy reopens. John Williams, on the other hand, predicted that inflation will come down to around 2% next year, adding it is "not the time now" to start lifting rates. Thomas Barkin sees price pressures easing in the fourth quarter. Robert Kaplan repeated his desire for tapering to start "sooner rather than later," adding that the housing market doesn't need support from the central bank.

Today's key data and events:

NZ Trade Balance May prev NZ$388mn (8:45am)

UK GfK Consumer Sentiment Jun exp -7 prev -9 (9:01am)

CH Current Account Q1 Final prev US$75.1bn (Time TBC)

EZ M3 Money Supply May exp 8.5% prev 9.2% (6:00pm)

US Personal Income May exp -2.5% prev -13.1% (10:30pm)

US Personal Spending May exp 0.4% prev 0.5% (10:30pm)

US PCE Core May exp 0.6% prev 0.7% (10:30pm)

US UoM Consumer Sentiment Jun Final exp 86.5 prev 86.4 (12:00am)

CH Ind. Profits May y/y prev 57.0% (11:30am Sun 27 Jun)

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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