

Thursday, 29 July 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,379	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	34,931	-0.4%	10 yr bond	98.85		0.00	90 day BBSW	0.02	-0.01	
Japan Nikkei	27,582	-1.4%	3 yr bond	99.72		-0.01	2 year bond	0.04	0.00	
China Shanghai	3,523	-0.6%	3 mth bill rate	99.98		0.00	3 year bond	0.24	-0.03	
German DAX	15,570	0.3%	SPI 200	7,301.0		19	3 year swap	0.37	0.00	
UK FTSE100	7,017	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.15	-0.05
Commodities (close & change)*			TWI	61.8	-	-	61.7	United States		
CRB Index	219.1	1.0	AUD/USD	0.7359	0.7381	0.7317	0.7374	3-month T Bill	0.05	0.00
Gold	1,807.11	8.0	AUD/JPY	80.79	81.15	80.64	81.04	2 year bond	0.20	0.00
Copper	9,746.50	-52.8	AUD/GBP	0.5301	0.5311	0.5283	0.5302	10 year bond	1.23	-0.01
Oil (WTI)	72.39	0.7	AUD/NZD	1.0575	1.0618	1.0568	1.0598	Other (10 year yields)		
Coal (thermal)	142.45	1.4	AUD/EUR	0.6227	0.6239	0.6211	0.6225	Germany	-0.45	-0.01
Coal (coking)	215.25	-1.8	AUD/CNH	4.8038	4.8062	4.7646	4.7857	Japan	0.02	0.00
Iron Ore	197.45	1.9	USD Index	92.5	92.7	92.2	92.3	UK	0.58	0.02

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The US Federal Reserve left its policy settings unchanged but indicated it was moving closer to tapering bond purchases. US bond yields and equities initially rose following the meeting before reversing gains later in the session.

Share Markets: US equities rose following the Federal Open Market Committee (FOMC) meeting before retreating later in the session. The S&P 500 finished unchanged and the Dow slipped 0.4%.

The ASX 200 fell 0.7% but futures point to a solid open.

Interest Rates: The US 2-year bond yield is unchanged at 0.20% after briefly hitting 0.22% post-FOMC. The US 10-year yield rose from 1.24% to 1.27% ahead of the FOMC but fell to 1.23% afterwards, likely reflecting some disappointment in the absence of a more explicit tapering signal.

Australian 3-year (futures) yields edged 1 basis point higher to 0.29% while 10-year futures yields finished unchanged at 1.16%.

Foreign Exchange: The Australian dollar declined from 0.7359 to 0.7317 against the US dollar ahead of the FOMC meeting before increasing to 0.7374. The US dollar weakened.

Commodities: Oil, gold and iron ore advanced. Copper slipped.

COVID-19: NSW recorded 177 locally acquired cases yesterday, with 46 cases infectious in the

community. Victoria recorded 8 new cases and Queensland recorded 1 new case.

The NSW lockdown was extended a further 4 weeks and is now due to end at midnight on August 28.

With the extension of the lockdown, both the Federal and State governments have announced further support measures. Individuals who are currently receiving the COVID-19 Disaster Payment will have their payments increased from next week. Those who have lost 20 hours or more will see their payments increase from \$600 to \$750 a week (the same amount as the first tranche of JobKeeper), and those that have lost less than 20 hours will see their payments increase from \$375 to \$450. In addition, from next week those who are receiving other welfare payments such as Youth Allowance or pension payments and have lost more than 8 hours a week of work will receive an additional \$200 a week.

For businesses, the NSW state government announced changes to the JobSaver program with the weekly payments now ranging between \$1,500 and \$100,000 (previously capped at \$10,000) per week for eligible businesses that have an annual turnover between \$75,000 and \$250 million. Other eligibility requirements are unchanged.

From Saturday, construction in non-occupied settings outside of 8 Local Government Areas (LGAs) of concern will reopen, subject to a one

person per 4 sqm rule.

The LGAs of Parramatta, Campbelltown and Georges River now must live under the same lockdown conditions as Fairfield, Canterbury-Bankstown, Cumberland, and Liverpool LGAs. Only workers on the critical worker list may leave those LGAs to attend work.

Additional support will also be offered to businesses in Victoria as part of a \$400 million support package funded by the Federal and State governments.

Australia: Inflation overshot the Reserve Bank's inflation target band for the first time in a decade in the June quarter, but this was due to the unwinding of pandemic-related price reductions. These factors are transitory. The RBA will look through the spike when setting policy.

The headline consumer price index rose by 0.8% in the June quarter, a touch stronger than consensus expectations that centred on a rise of 0.7%. The annual rate lifted from 1.1% in the March quarter to 3.8% in the June quarter - the highest annual rate in almost 13 years.

Underlying price pressures were more muted. Trimmed mean inflation rose 0.5% in the June quarter – the biggest quarterly gain since early 2018. The annual rate rose from a record low of 1.1% in the March quarter to a 2½-year high of 1.6% in the June quarter.

Unlike the headline rate, the underlying inflation rate remains under the RBA's 2-3% inflation target band. It has been underneath the band consistently since early 2016.

The quarterly increase in headline inflation was led by a 6.5% jump in fuel prices and to a lesser extent an increase in health costs as private health insurance premiums reset in April. The sharp increase in annual headline inflation also reflects the unwind of the free childcare policy introduced last year.

We expect the headline rate to drop sharply in the second half of this year and the underlying inflation rate to move gradually higher and into the RBA's band next year.

United Kingdom: House prices declined 0.5% in July but were still 10.5% higher over the year. This marks the first decline in four months, partly reflecting that a tax break on purchases began to be phased out.

United States: The FOMC left the target range for its benchmark rate unchanged at zero to 0.25% and maintained asset purchases at \$120 billion per

month.

The FOMC indicated it was moving closer to tapering bond purchases, with Chair Powell acknowledging they had taken a “first deep dive” into discussing scaling back bond buying. There was also an acknowledgement that the economy “has made progress” toward the central bank's inflation and employment goals. However, the FOMC also reiterated tapering would not commence until “substantial further progress” was made.

On inflation, Powell noted risks are “probably to the upside” but the statement stuck to the view that the increase in prices was largely transitory.

Today's key data and events:

NZ ANZ Business Confidence Jul prev -0.6 (11am)
 AU Trade Price Indices Q2 (11:30am)
 Import Prices exp 1.0% prev 0.2%
 Export Prices exp 9.0% prev 11.2%
 EZ Consumer Confidence Jul Final prev -4.4% (7pm)
 EZ Economic Confidence Jul exp 118.4 prev 117.9 (7pm)
 EZ Industrial Confidence Jul exp 12.6 prev 12.7 (7pm)
 EZ Services Confidence Jul exp 19.3 prev 17.9 (7pm)
 US GDP Q2 prev 6.4% (10:30pm)
 US Pending Home Sales Jun (12am)

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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