Morning report

Bank of Melbourne

Friday, 5 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,761	-0.8%		Last		Overnight Chg		**Australia**		
US Dow Jones	30,924	-1.1%	10 yr bond	98.19		-0.04		90 day BBSW	0.03	0.00
Japan Nikkei	28,930	-2.1%	3 yr bond	99.65		-0.02		2 year bond	0.13	0.02
China Shanghai	3,672	-2.1%	3 mth bill rate	99.96		0.00		3 year bond	0.13	0.02
German DAX	14,056	-0.2%	SPI 200	6,736.0		-17		3 year swap	0.38	0.07
UK FTSE100	6,651	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.77	0.10
Commodities (close & change)*			TWI	64.6	-	-	64.4	**United States**		
CRB Index	190.7	0.8	AUD/USD	0.7793	0.7815	0.7709	0.7722	3-month T Bill	0.03	-0.01
Gold	1,698.66	-12.6	AUD/JPY	83.37	84.04	83.01	83.34	2 year bond	0.14	0.00
Copper	8,924.75	-196.0	AUD/GBP	0.5581	0.5598	0.5550	0.5558	10 year bond	1.55	0.07
Oil (WTI)	64.21	2.9	AUD/NZD	1.0748	1.0754	1.0714	1.0742	**Other (10 year yields)**		
Coal (thermal)	82.90	-2.6	AUD/EUR	0.6458	0.6484	0.6434	0.6451	Germany	-0.31	-0.02
Coal (coking)	133.86	-3.1	AUD/CNH	5.0476	5.0588	5.0043	5.0131	Japan	0.13	0.01
Iron Ore	171.67	1.7	USD Index	90.9	91.7	91.0	91.6	UK	0.73	-0.05

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

Main Themes: Federal Reserve Chair's comments at a jobs summit contributed to a sell-off in US government bonds (i.e. yields rose) and a sell off in equities. Financial markets were disappointed that Powell did not signal the Fed would alter its stance due to surging bond yields.

Share Markets: Share markets sold off overnight, as global bond yields rose and Federal Reserve Chair Powell did little to reassure bond markets. The Dow fell 346 points (or -1.1%), the S&P 500 dropped 58 points (or -1.5%) and the Nasdaq lost 274 points (or -2.1%).

Interest Rates: US Federal Reserve Chair Jerome Powell did little to soothe bond markets overnight. The Fed chief said "disorderly" market conditions are a concern, but he did not address the surge in long-term rates. He did add any increase in inflation is likely to be transitory. The bond market did not take Powell's speech well with US Treasuries succumbing to selling. The 10-year yield lifted 7 basis points to 1.55%. The US 2-year yield finished the session unchanged.

Foreign Exchange: The Australian dollar depreciated against the US dollar overnight, as equities took a tumble and global bond yields rose. The AUD/USD fell from an overnight high of 0.7815 to an overnight low of 0.7709, which is near the low of its trading range since the bond market rout began. The critical long-term level is 0.7445. A break under this would take the shine off the AUD's bullish medium-term outlook.

The US dollar index is up 0.7% on the day to a one-month high. In other currencies, there were notable moves in the euro and Japanese ten. The EUR fell from 1.2060 to 1.1973 against the USD and the USD/JPY rose from 107.00 to an eight-month high of 107.88.

Commodities: The Organisation of Petroleum Exporting Countries (OPEC) met overnight and agreed to keep a tight squeeze on output through April. Saudi Arabia also said it will maintain its 1 million barrels a day voluntary cut. The Russians and Kazakhs again got exemptions to the agreement, this time for 130,000 and 20,000 barrels a day, respectively. The bullish outcome from the OPEC meeting sent crude prices soaring:

Australia: Retail sales rose 0.5% in January, a touch weaker than the preliminary estimate of 0.6%. Retail sales has been very volatile over the past twelve months. However, cutting through this volatility reveals strong underlying momentum in retail sales. Retail sales in annual terms rose 10.6%, which is well above the long-run average of 3.8%.

January was characterised by a lockdown in parts of NSW and QLD, as well as the threat of a lockdown in Victoria. Retailing was strongest in WA, perhaps reflecting border closures preventing tourist outflows, and NSW and Victoria, as shoppers in these states hoarded food and other essential items. WA retailing rose by 2.1%, Victoria by 1.0% and NSW by 0.8%.

Whilst parts of QLD had a lockdown in January, it was short lived. The closure of QLD's interstate borders with NSW and Victoria in January hurt retailing more. The Sunshine state usually relies on tourism-related retailing in January. QLD recorded the sharpest fall in the month of 1.5%.

The strongest category in the month not surprisingly was food. It grew by 1.6%, after five consecutive months of declines. Discretionary spending took a back step in January amid nervousness related to the cluster of infections in the big states of NSW and Victoria. Clothing, footwear & personal accessories recorded the biggest fall of 3.6% in the month.

Over the year ahead we expect retail sales to continue to be supported by low interest rates, an upturn in housing, improving labour market conditions and elevated consumer confidence. However, over the coming months the unwind of temporary income support measures, like JobKeeper, may weigh on expenditure.

Australia's trade surplus hits $10.1 billion in January, a fresh record high, well above market expectations for a rise to $7.5 billion. The January result was an improvement of $3.0 billion on December. The widening of the surplus was made possible by growth of 6.2% in export earnings and a fall of 2.3% in imports.

Australia's trade account has now been in surplus for 37 consecutive months – each month through 2018, 2019 and 2020, as well as the opening month of 2021.

Eurozone: Retail sales in the euro area fell by 5.9% in January, which is the biggest monthly decline in nine months, as closed shops and lockdown restrictions kept people at home. On a year ago, retail sales fell 6.4%.

In other data, the unemployment rate in the euro area remained steady and elevated at 8.1%.

United States: The final reading for durable goods orders remained unchanged from the preliminary estimate for Feb at growth of 3.4%.

Initial jobless claims bounced back by only 9k last week from the prior week's sharp drop of 98k. The four-week moving average, a less volatile measure, fell to 791k, the lowest level since early December. The downward trend should become clearer in the coming weeks amid signs of improving economic activity.

Federal Reserve Chair Powell's comments at a Wall Street Journal jobs summit disappointed markets when he did not signal that the Fed would alter its stance due to surging bond yields. He reiterated that it is still "a long way" from reaching policy goals and that there is "a lot of ground we have to cover", signalling it will keep policy very accommodative for a long time. On the rise in bond yields, Powell said there were several reasons for it, including an increase in confidence, and added that the speed was "notable and caught my attention". He said he is concerned about "disorderly" moves and any "persistent tightening in financial conditions".

When questioned on inflation and whether the expected rise in prices will be transitory or sustained, Powell said prices should be moving higher from the sub-2% pace. He explained this would be due to increased spending as the economy opens, but that it has been a "low inflation world" for some time and that is unlikely to change. If the transitory increase does occur, Powell said the Fed would likely be "patient."

Today's key data and events:

AU Performance of Services Index Feb prev 54.3 (8:30am)

NZ Building Volumes Q4 exp 3.0% prev 34.6% (8:45am)

US Non Farm Payrolls Feb exp 188k prev 49k (12:30am)

US Unemployment Rate Feb exp 6.3% prev 6.3% (12:30am)

US Avg Hourly Earnings Feb exp 0.2% prev 0.2% (12:30am)

US Trade Balance Jan exp -$67.5bn prev -$66.6bn (12:30am)

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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