

Monday, 8 March 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,711	-0.7%	Last		Overnight Chg			Australia		
US Dow Jones	31,496	1.9%	10 yr bond	98.23	0.06			90 day BBSW	0.04	0.01
Japan Nikkei	28,864	-0.2%	3 yr bond	99.72	0.03			2 year bond	0.13	0.00
China Shanghai	3,671	0.0%	3 mth bill rate	99.95	-0.01			3 year bond	0.13	0.00
German DAX	13,921	-1.0%	SPI 200	6,800.0	107			3 year swap	0.34	-0.04
UK FTSE100	6,631	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.83	0.06
Commodities (close & change)*			TWI	64.4	-	-	63.9	United States		
CRB Index	193.4	2.7	AUD/USD	0.7722	0.7731	0.7622	0.7686	3-month T Bill	0.03	-0.01
Gold	1,700.64	3.1	AUD/JPY	83.34	83.60	82.78	83.28	2 year bond	0.14	-0.01
Copper	8,911.20	-13.5	AUD/GBP	0.5558	0.5566	0.5530	0.5554	10 year bond	1.57	0.00
Oil (WTI)	66.09	2.3	AUD/NZD	1.0742	1.0768	1.0715	1.0719	Other (10 year yields)		
Coal (thermal)	82.55	-0.4	AUD/EUR	0.6451	0.6461	0.6407	0.6451	Germany	-0.30	0.01
Coal (coking)	134.35	0.5	AUD/CNH	5.0131	5.0187	4.9652	5.0077	Japan	0.10	-0.04
Iron Ore	167.73	-3.9	USD Index	90.9	92.2	91.6	92.0	UK	0.76	0.03

Data as at 9am Sunday 7 March. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US non-farm payrolls beat market expectations and provided encouraging signs about the US economic outlook. The payrolls dominated investor sentiment on Friday and helped drive US share market indexes and the US dollar higher.

Share Markets: A stronger-than-expected jobs report in the US helped share market indexes roar back to life on Friday. The Dow closed 572 points firmer (or +1.9%) and the S&P 500 index added 73 points (or +2.0%).

Interest Rates: Bond yields finished little changed on Friday. The US 2-year bond yield fell 1 basis point to 0.14% and the US 10-year yield was flat at 1.57%. During the session, the US 10-year yield had pushed to 1.62%, but fell back by the close.

Short-selling pressures appear intense. Investors in US interest rate futures made sharp changes in positioning in the week ending March 2, a period that included the February 25 washout sparked by a disastrous US 7-year Treasury note auction. Data shows asset managers flipped to the most net short 10-year note futures since 2016.

Foreign Exchange: The USD index firmed modestly through Friday's overnight trading session to reach a three-month high, underpinned by an encouraging US jobs report. The stronger USD led the AUD lower. The AUD/USD exchange rate fell to an overnight low of 0.7622. The next key support level is at around 0.7560. We expect the AUD/USD

to hold its head above this support level and trade in a wide range over the next few weeks of around 0.7560 to 0.7950 before resuming its rally and trying to breach above US 80 cents again. If the AUD/USD were to break under 0.7560 instead, then it suggests a deeper downward correction could be unfolding.

Commodities: Oil rallied to the highest in nearly two years on Friday after OPEC's decision on Thursday to keep supply limited. US benchmark crude futures topped US\$66 a barrel and Brent neared the key US\$70 level.

Australia: The performance of services index improved 1.5 points to 55.8 in February. A reading above 50 suggests activity in services will continue to expand in the months ahead.

New Zealand: Building volumes unexpectedly fell in February by 1.5%, led by a sharp fall in non-residential volumes. The decline follows a very sharp rise of 34.6% in the previous month.

United States: The US economy added back the most jobs in four months in February, as easing COVID-19 infections and a ramping vaccine rollout allowed distancing restrictions to begin to moderate. The unemployment rate also unexpectedly improved during the month. Non-farm payrolls rose 379k in February, above consensus forecasts for an

The February jobs report also included a notable

upward revision to payrolls gains in January, but a downward revision to losses in December. January's payroll gain was revised to 166k, up from a previously reported gain of 49k. However, December's payroll losses – the first since April – were revised to 306k from the drop of 227k reported earlier.

The unemployment rate fell 0.1 percentage point to 6.2% in the month. This is a significant improvement from the pandemic high of 14.8%, but is still well above the 50-year low of 3.5% struck in February 2020. The participation rate stayed steady in February at 61.4%.

All in all, the jobs report adds to recent evidence, including data on manufacturing and retail sales, that the economy is gaining momentum. High-frequency data have also shown additional improvement, including an uptick in restaurant bookings.

The US trade deficit widened in January to \$68.2 billion compared with a \$67.0 billion gap in December.

Imports increased 1.2% in the month and have returned to pre-pandemic levels after dropping sharply starting in March. The \$600 payments received by households as part of the latest round of government stimulus has helped support consumer spending and led to demand for imports.

Meanwhile, exports rose 1.2% in the month, as the recovery in the global economy helped bolster exports of petroleum products, industrial machinery and semiconductors.

Federal Reserve speakers on Friday seemed unperturbed by recent bond market ructions.

Minneapolis Federal Reserve President Neel Kashkari said he is not worried about recent gyrations in the Treasury market. He added that if there was a real rise in real yields, that would give him pause. In addition, Kashkari said recent moves "suggest that our framework is delivering what we wanted it to deliver."

St. Louis President James Bullard was equally unperturbed, telling Wharton Business Radio that yields are "just now returning to levels consistent with six months before the pandemic hit."

Today's key data and events:

JN Current Account Jan prev ¥1165.6bn (10:50am)

EZ Sentix Investor Confid. Mar exp 1.4 prev -0.2 (8:30pm)

US Wholesale Inventories Feb Final prev 1.3% (2am)

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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The Detail

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