

Monday, 3 May 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,026	-0.8%	Last		Overnight Chg			Australia		
US Dow Jones	33,875	-0.5%	10 yr bond	98.30	0.00			90 day BBSW	0.04	0.00
Japan Nikkei	28,813	-0.8%	3 yr bond	99.74	0.00			2 year bond	0.08	0.00
China Shanghai	3,613	-0.8%	3 mth bill rate	99.96	0.00			3 year bond	0.30	0.01
German DAX	15,136	-0.1%	SPI 200	6,995.0	-7			3 year swap	0.32	-0.01
UK FTSE100	6,970	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.75	0.03
Commodities (close & change)*			TWI	64.5	-	-	64.4	United States		
CRB Index	199.8	-0.9	AUD/USD	0.7769	0.7784	0.7696	0.7718	3-month T Bill	0.00	-0.01
Gold	1,769.13	-3.0	AUD/JPY	84.63	84.85	84.14	84.38	2 year bond	0.16	0.00
Copper	9,833.00	-60.5	AUD/GBP	0.5573	0.5596	0.5570	0.5585	10 year bond	1.63	-0.01
Oil (WTI)	63.59	0.0	AUD/NZD	1.0726	1.0775	1.0722	1.0767	Other (10 year yields)		
Coal (thermal)	90.75	0.8	AUD/EUR	0.6409	0.6428	0.6404	0.6417	Germany	-0.20	-0.01
Coal (coking)	113.25	-0.1	AUD/CNH	5.0219	5.0322	4.9823	4.9968	Japan	0.10	0.00
Iron Ore	184.05	-3.6	USD Index	90.6	91.3	90.6	91.3	UK	0.84	0.00

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Investor sentiment soured on Friday after strong US data fanned concerns around inflation. Remarks from US Federal Reserve President Robert Kaplan also stoked these concerns.

Across to Europe and data confirmed that the eurozone bloc entered a double-dip recession in the March quarter.

Share Markets: The US S&P 500 share market index dropped from a record high after traders assessed earnings and economic data showed potential inflation pressures. Moreover, the US Federal Reserve's Robert Kaplan proposed a debate on reducing bond purchases.

The S&P 500 index dropped 186 points (or -0.5%), the Dow lost 30 points (or -0.7%) and the Nasdaq slid 120 points (or -0.9%).

Interest Rates: US 2-year treasury yields traded around 0.16%, while the 10-year yield fell from 1.65% to 1.62%.

Foreign Exchange: The failure of the AUD/USD to break above the key resistance level of 0.7825 after making another attempt late last week has caused the AUD/USD to sell off to near the bottom of its recent trading range. The AUD/USD fell to an overnight low on Friday of 0.7696. A stronger US dollar index was also behind the weaker AUD.

Commodities: Oil, gold and copper retreated.

COVID-19: A temporary ban begins on 3 May and applies to any travellers who have visited India within 14 days of their intended arrival date in Australia. Changes to the Biosecurity Act mean a breach of these conditions could result in up to 5 years in jail and heavy fines.

In the US, President Biden has Biden banned most travel to the US from India starting Tuesday.

Australia: Private sector credit grew 0.4% in March, its fastest monthly growth in the past year. It is an encouraging sign that households and businesses are beginning to borrow more to fund investment as the economic recovery continues.

Business credit may have turned a corner. Business credit growth ticked up 0.3% in March. Business credit growth has been anaemic over the past year, although readings in recent months have shown a marked improvement. Moreover, business conditions are around record highs and confidence is elevated.

Housing credit growth continued to accelerate in March, up 0.5%, led by lending to owner occupiers. Housing credit has been on the rise since late 2020 alongside rocketing house prices.

Other personal credit increased 0.2% in March. This is the largest monthly increase since 2015 although on an annual basis, other personal credit growth is still down 10.7%.

A survey of business conditions and sentiments was also published on Friday, revealing the results from a survey taken from 14 – 21 April. Encouragingly, the survey showed that operating conditions for businesses have continued to recover.

Business revenues improved further in April. Only 18% of businesses reported a drop in revenues – the lowest share since the pandemic began. The share of businesses reporting higher revenues was also the best result this year.

This survey gives us some early insights around employment after JobKeeper's expiry last month. Nine per cent of businesses reported a lift in employment in April, the same share of businesses as in March. In addition, 10% of respondents expect to increase employment next month. These results are consistent with JobKeeper's expiry resembling more of a speed hump than a fiscal cliff.

A big issue for businesses, especially small businesses, are supply-chain disruptions. A high share of businesses surveyed (30%) are experiencing these disruptions and 37% of these businesses are impacted significantly. The primary impacts include major delays, uncertain delivery times and variability to revenues.

The four industries that are most heavily impacted by supply chain disruptions are manufacturing (55%), other services such as hairdressers and repairs (54%), retail trade (52%) and wholesale trade (50%).

Businesses are adapting to deal with these disruptions; 87% of businesses impacted by these disruptions have made at least one modification to their operations. The most common change was to the ordering process (62%). Notably, 34% of business raised prices.

Ongoing COVID safe controls were adversely impacting 64% of businesses surveyed. The most adverse impact was the requirement around extra cleaning & disinfecting. The most heavily affected industry was accommodation & food services.

China: The purchasing managers' index (PMI) for manufacturing hit 51.1 in April, dropping from 51.9 in March. It was below consensus expectations but importantly the reading was still above 50.0, which suggests growth lies ahead in manufacturing activity.

The non-manufacturing PMI also declined in April, to 54.9, from 56.3 in March.

Some analysts believe that the data fits in with the idea that China's economy has peaked after a

record annual rate of growth of 18.3% in Q1.

Eurozone: The eurozone slid into a double-dip recession in the March quarter, as output dropped under the weight of COVID-19 lockdown measures across much of the eurozone. GDP shrunk 0.6% in the quarter in the bloc, following a contraction of 0.7% in Q4 of 2020. Germany was the eurozone's worst-hit major economy, logging a quarterly contraction of 1.7% in Q1.

Separate figures published on Friday showed that eurozone's inflation rate continued to rise, from annual growth of 1.3% in March to 1.6% in April.

The unemployment rate in the euro area economy was 8.1% in March, down from 8.2% in February but up from 7.0% before the pandemic.

New Zealand: Consumer confidence jumped 4.6 points to 115.4 in April, still a little shy of its historical average of 120.

United States: The employment cost index rose 0.9% in Q1, above market expectations for a smaller gain of 0.7%. The gain was the largest since Q2 of 2007. The data revealed labour costs are showing resilience to the pandemic, possibly reflecting labour demand shifting from low skilled workers and to skilled workers in bottleneck industries.

The Dallas Federal Reserve President Robert Kaplan said signs of excess risk-taking in financial markets show it's time for the Fed to start debating a reduction in bond purchases. Kaplan isn't a voter this year.

Personal incomes surged 21.1% last month, the most since at least 1946, as stimulus cheques popped into household bank accounts. Spending rose 4.2% from the prior month.

The Fed's favoured inflation gauge was in line with expectations. The core personal consumption expenditure (PCE) deflator quickened to an annual pace of 1.8% in April, from a 1.4% rate in March.

The Chicago Business Barometer, also known as the Chicago PMI, jumped 5.7 points to 72.1 in April. It is the highest level since 1983. Among the sub indices, order backlogs posted the largest increase.

Consumer confidence continued to strengthen in April. The final reading for the University of Michigan's consumer sentiment index improved to 88.3 in April, from 84.9 in March and the preliminary reading of 86.5. It was also better than consensus expectations.

Today's key data and events:

AU CoreLogic Dwelling Prices Apr exp 1.8% prev 2.8%
(10am)

AU Melb Inst Inflation Gauge Apr y/y prev 1.8% (11am)

AU Job Advertisements Apr prev 7.4% (11:30am)

US Markit Mfg PMI Apr Final prev 60.6 (11:45pm)

US Construction Spending Mar exp 2.0% prev -0.8% (12am)

US ISM Mfg Index Apr exp 65.1 prev 64.7 (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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