

Morning Mutterings: Wednesday 14 July, 2021

Quote of the day...

"It is not necessary to bury the truth. It is sufficient merely to delay it until nobody cares" ...Napolean Bonaparte

Overview..."it's ALIVE, but for how long?"

- US inflation surprised to the upside, which gave risk sentiment a modest kick in the teeth. US stocks reversed early gains following the print and bond yields inched higher, with sentiment in the latter also knocked by a 30-year auction that was met with tepid demand. UST 10-year yields actually dropped post the CPI print, but then rose on the 30-year auction results. The USD rose, and consequently the AUD fell (in itself inflationary), while gold pared earlier gains. Oil clawed back some lost ground despite continued uncertainty around the OPEC situation.
- The main event was the June US CPI print, which came in at +0.9% MoM vs +0.5% MoM (consensus) and +0.6% MoM (May) and +5.4% YoY vs +4.9% YoY (consensus) and +5.0% YoY (May), representing the biggest print since 1990, the second biggest print since then was in 2008 at +5.0% YoY. The size of the miss and the absolute number must certainly strike a slither of fear into the hearts and minds of the 'transitionalists'. Fed Chair Powell begins two days of Congressional testimony tonight and he'll no doubt be fielding a few 'please explain' questions on how the Fed plans to respond — along with his thoughts on more government stimulus.
- Within the data, there are elements to support both the "transitionalists" and those that think inflation is becoming entrenched and a problem requiring Fed action. For example, used cars contributed a sizeable chunk of the CPI increase, which supports the 'transitionalists', while stickier rent prices also started to climb, supporting those who see inflation has entrenched. If there is already lack of consensus at the Fed on when to kick off tapering, these aren't going to settle the debate.
- A handful of Fed peeps were on the airwaves, peddling their 'all is good, nothing to see here' fairy tales. Mary Daly, a 'transitionalist', brushed aside the CPI print as an expected "pop," which it was, but it was a much bigger pop than first thought. Meanwhile, the Fed's Kaplan said he has raised his inflation forecast for the remainder of the year and into 2022. And lastly, Thomas Barkin, wrote *"that higher wages of lower-income workers are contributing to inflationary pressures,*

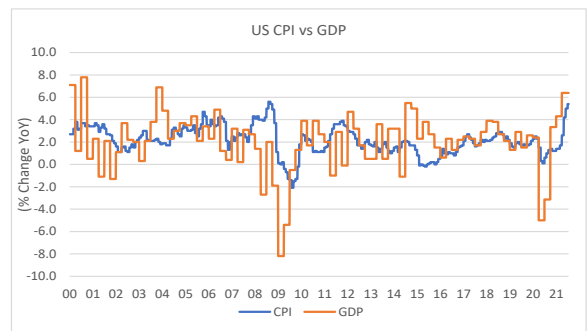
"Fairycast..."



Source: www.hedgeye.com

| At a glance... | | Last | 1D | 7D | 30D |
|----------------|---------------------|--------|--------|--------|--------|
| EQUITIES | ASX 200 | 7,332 | -0.02% | 0.97% | -0.64% |
| | DOW | 34,889 | -0.31% | 0.90% | 1.72% |
| | S&P 500 | 4,369 | -0.35% | 0.59% | 2.89% |
| | NASDAQ | 14,678 | -0.38% | 0.10% | 4.30% |
| | STOXX | 461 | 0.03% | 1.09% | 0.47% |
| CREDIT | AusBond FRN (bps) | 33.2 | -0.45 | -1.71 | -1.16 |
| | AusBond Fixed (bps) | 56.3 | -0.49 | -0.68 | -1.00 |
| | US Fin (OAS, bps) | 68.8 | -0.75 | -0.20 | -2.13 |
| | EU Fin (OAS, bps) | 37.5 | -0.48 | -1.92 | -2.68 |
| BONDS | ACGB (10Y, %) | 1.327 | 0.01 | -0.14 | -0.17 |
| | ACGB (3Y, %)* | 0.300 | -0.01 | -0.15 | 0.05 |
| | UST (10Y, %) | 1.413 | 0.05 | 0.07 | -0.08 |
| | UST (2Y, %) | 0.251 | 0.02 | 0.03 | 0.09 |
| FX & COMDITY | BB Commodities | 94.48 | 0.55% | 1.81% | 1.00% |
| | Oil (Brent, \$/bbl) | 76.55 | 1.85% | 2.71% | 3.46% |
| | Gold (\$/oz) | 1,808 | 0.08% | 0.59% | -2.76% |
| | AUDUSD | 0.74 | -0.43% | -0.71% | -3.16% |
| | AUDEUR | 0.63 | 0.27% | -0.32% | -0.30% |

Chart du jour...CPI , US vs AU



Source: Bloomberg, Mutual Limited

adding the outlook should be clearer by September depending in part on whether vaccines can put an end to the pandemic”.

Details....

- Offshore Stocks** – modest risk off moves in an absolute sense, with the DOW, S&P 500 and NASDAQ down -0.3% - 0.4% as CPI surprised to the upside. While the moves were modest, directionally moves were largely all one way, down, with 85% of the S&P 500 in the red and only one sector, Tech (+0.4%), able to get in the winning groove. The biggest losers on the day were REITS (-1.3%), Discretionary (-1.2%) and Financials (-1.1%). Reporting season (Q2) kicked off, which saw record revenue generated by JPM dealmakers and the second-best haul ever by their peers at Goldman Sachs. It wasn’t enough to offset a worse-than-expected slump in fixed-income trading, rapidly rising costs and uncertainties for the future. In aggregate both beat profit estimates, however weaker market wide sentiment pressured their stocks prices lower.
- Local stocks** – it started as a good day for risk, the sun was shining, kind of, the birds were chirping, but there was a bit of a bite to the breeze. In the first hour of trading the ASX 200 rose with a spring in its step, up +0.7%, picking up the risk-on-baton from offshore leads. Somewhere between 10:30am and 11:00am, the tone began to soften, albeit it very gradually, until at the end, a very, very modest red day. More stocks rose than fell, just, and only four sectors fell on the day (seven higher), but it was the ones that fell that mattered. REITS (-0.9%), Energy (-0.6%) and Financials (-0.4%), which collectively represent almost 40% of the index, drove the market lower. Putting in a rear-guard action, Industrials (+0.9%), Utilities (+0.8%) and Staples (+0.4%) were best in show. Futures are up a smidge.



(Source: Bloomberg)

- Offshore Credit** – modest in US IG markets with only a couple of deals, while in EU IG markets a €15bn European Union deal sucked the oxygen right out of the market, dominating the day and leaving little air for corporate deals. All up €24bn printed in EU IG markets, all largely sovereign related, with books 7.5x oversubscribed. Secondary spreads in cash markets were unchanged to a basis point tighter, while in CDS the CDX (US) was +0.5 bps wider, and MAIN (EU) unchanged.
- Local Credit** – called it! Traders reset their axes on major bank senior paper a basis point tighter yesterday, so Jan-

25's are now at +31 bps and three-year at +22 bps. While spreads have tightened, and a meaningful tightening in the context of recent lack of momentum, this has not been driven by any real buying action, but rather in "recognition of dwindling volumes of available inventory in secondary markets." Further, we're hearing the Jan-25's actually traded yesterday at +29 bps. Tier 2 paper (majors) closed unchanged.

- **Bonds & Rates** – not a lot happening in local bonds yesterday, just chillin, minimal moves in either direction, although RSI's are suggesting ACGB's are bumping around 'overbought' areas, which will likely ease today given the lead from US treasuries. Overnight, the big miss to the upside in US CPI gave yields a kick in the pants with the 2's up +2.4bps to 0.25% and the 10's were up +4.5 bps to 1.41%. Given the size of the CPI overshoot, the move in treasuries was pretty muted. With Fed Chair Powell talking before Congress tonight and tomorrow, we could see further volatility in yields subject to what he says.

| Australia | | Browse | | 17:02:02 | | Treasury & Money Markets | | | | | |
|----------------------|---------------|-----------------|--------------|-----------|----------------|--------------------------|------------------|------------------------|-------------|--------------|-------------|
| Money Rates | | Bank Bills Live | | BBSW | | BABs EOD | | OIS | | Basis vs USD | |
| RBA Cash Target | 0.10 +0.00 | 1M | 0.02 +0.00 | 1M | 0.0100 +0.0000 | 1M | 0.01 +0.00 | 1M | 0.03 +0.00 | 1YR | -0.50 -0.25 |
| RBA O/N Cash | 0.03 +0.00 | 2M | 0.02 +0.00 | 2M | 0.0100 -0.0106 | 2M | 0.02 +0.01 | 2M | 0.03 +0.00 | 2YR | 3.88 -0.38 |
| SFE IB 30 Day Future | | 3M | 0.03 +0.00 | 3M | 0.0250 +0.0000 | 3M | 0.03 +0.00 | 3M | 0.03 +0.00 | 3YR | 9.88 -0.38 |
| IB1 | 99.975 +0.000 | 4M | 0.05 +0.00 | 4M | 0.0450 +0.0050 | 4M | 0.05 +0.00 | 4M | 0.03 +0.00 | 5YR | 18.25 -0.50 |
| IB2 | 99.970 -0.005 | 5M | 0.06 +0.00 | 5M | 0.0500 +0.0000 | 5M | 0.06 +0.01 | 5M | 0.03 +0.00 | 7YR | 24.00 -0.63 |
| SFE 90 Day Bank Bill | | 6M | 0.07 +0.00 | 6M | 0.0650 +0.0000 | 6M | 0.07 +0.00 | 6M | 0.03 +0.00 | 10YR | 29.00 -0.50 |
| IR1 | 99.970 +0.000 | Govt Bonds | | Mid Swaps | | S&P/ASX Indices | | Spot FOREX | | | |
| IR2 | 99.940 +0.000 | 1Y | 0.048 +0.005 | 1Y | 0.07 +0.00 | 200 | 7332.10 -0.02% | AUD | 0.7489 | | |
| IR3 | 99.910 +0.000 | 2Y | 0.098 +0.002 | 2Y | 0.22 +0.00 | SPI FUT | 7251.00 -0.01% | EUR | 1.1857 | | |
| IR4 | 99.840 +0.000 | 3Y | 0.309 -0.008 | 3Y | 0.39 -0.01 | ALLORDS | 7612.20 +0.10% | JPY | 110.3800 | | |
| SFE Bond Future | | 4Y | 0.534 -0.003 | 4Y | 0.61 -0.01 | SML ORDS | 3372.20 +0.64% | CNY | 6.4656 | | |
| YM1 | 99.660 +0.005 | 5Y | 0.707 +0.000 | 5Y | 0.79 +0.00 | 200 PROP | 1550.70 -0.86% | AUDEUR | 0.6317 | | |
| YM2 | 99.650 +0.005 | 6Y | 0.877 +0.003 | 6Y | 0.96 +0.00 | Gold | | AUDGBP | 0.5397 | | |
| XM1 | 98.670 -0.010 | 7Y | 1.015 +0.006 | 7Y | 1.11 +0.00 | GOLD USD | 1809.79 +3.51 | AUDNZD | 1.0725 | | |
| XM2 | 98.670 -0.010 | 10Y | 1.334 +0.010 | 10Y | 1.43 +0.00 | GOLD AUD | 2417.35 +2.90 | AUDCHF | 0.6854 | | |
| LTY1 | 98.090 -0.010 | 12Y | 1.390 +0.009 | 12Y | 1.57 +0.01 | Global Indices | | Sov CDS/Markit Indices | | | |
| LTY2 | 98.090 -0.010 | 15Y | 1.714 +0.005 | 15Y | 1.72 +0.01 | S&P500 | 4384.63 +15.08 | AUST SOV | 14.66 +0.02 | | |
| 3-10S Spread | | 20Y | 1.961 +0.009 | 20Y | 1.81 +0.01 | EU STOXX50 | 4093.38 +25.29 | MARKIT ITRX | 59.41 -0.18 | | |
| ABFS | 0.995 +0.020 | 30Y | 2.134 +0.010 | 25Y | 1.82 +0.01 | NIKKEI | 28718.24 +149.22 | MARKIT NA IG 5Y | 47.78 -0.03 | | |
| | | 30Y | 1.79 +0.01 | 30Y | 1.79 +0.01 | SHANGHAI | 3564.48 +16.64 | MARKIT ITRX EUR | 46.71 +0.04 | | |

(Source: Bloomberg)

- **Offshore Macro** – US CPI was the main show overnight, but a little macro-nugget was released that also warrants a mention, and some attention. The National Federation of Independent Business (NFIB) survey was released and printed a historically bad reading. The NFIB showed growing small business optimism, coupled with clear and present danger of the economy overheating. The Prices Paid diffusion index, which measures how many companies were complaining about higher prices reached 47.0. As to how bad that reading is, I'll use some pop cultural context for the fun it, the last time the index was this high, the songs at number one in Casey Cason's US Hot 100 included 'Keep On Loving You' by REO Speedwagon, John Lennon's 'Woman', and 'Rapture' by Blondie; it was March 1981.
- **Local Macro** – NAB Business Confidence and Business Conditions data out yesterday and with no surprise to anyone, both measures dropped from their prior month's records, weighed down by the NSW COVID outbreak and subsequent lockdown. Business Conditions printed at 24 vs 37 last month, while Business Confidence fell from 20.0 to 10.7. While the falls were meaningful, the outright indicators are still well above average, indicating a reasonable degree of ingrained confidence. For historical context, the confidence indicator has averaged 3.8 since 2015 and over the year prior to the pandemic the measure averaged 1.5. A similar scale can be applied to the Business Conditions indicator, in the low single digits through 2019.

