

The week that was

- Bond yields surged higher through the week, as investors priced in reflation, i.e. a combination of higher real bond yields due to global economic recovery and higher inflation expectations from the proposed new US government stimulus package.
- Share markets stopped rising as higher bond yields signalled higher corporate borrowing costs. But, with investors focussed on reflation, 'risk assets' are still favoured over 'risk free' (government bonds) and 'safe haven' assets, such as the US dollar and gold.
- In the US, the S&P500 fell 0.7%, in Europe, the DJ Stoxx600 edged up 0.2%, while Australia's S&P/ASX200 fell 0.2%. US storms affected oil production; Brent oil rose 0.6% in the week. Gold fell 2.2%. The Australian dollar appreciated 1.4% against the US dollar reaching US\$0.78, its highest level this year.
- US 10-year yields jumped 13bps and Australian 10-year yields leapt 21bps, to 1.43% their highest level since July 2019. The TCorp yield curve steepened.

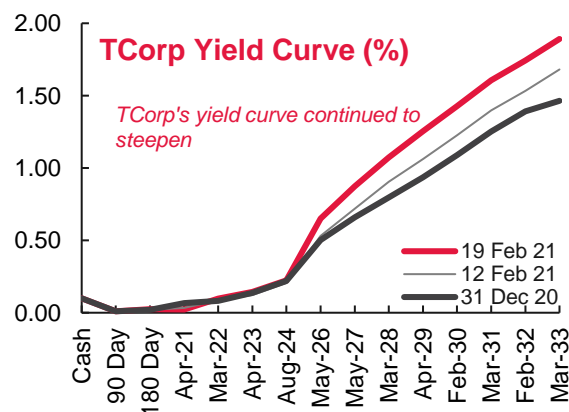
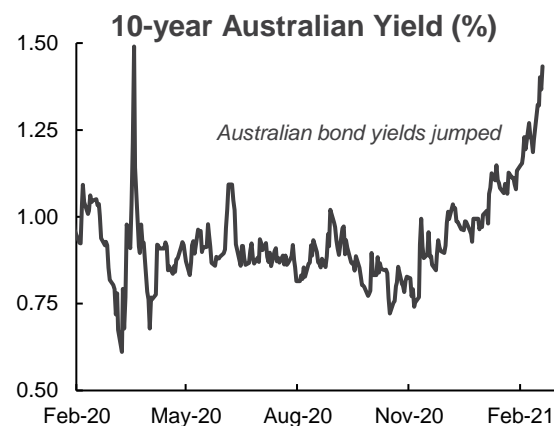
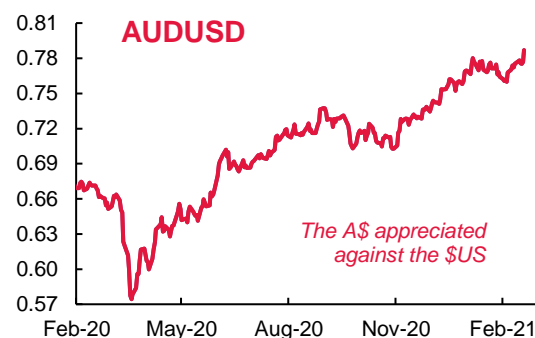
Economic calendar

Monday 22/2	GE: IFO survey, Feb
Tuesday 23/2	AU: Merchandise trade, Jan US: Fed's Powell testimony
Wednesday 24/2	AU: Wage price index, Q4 NZ: RBNZ monetary policy decision
Thursday 25/2	AU: Capital expenditure, Q4 US: Durable goods orders, Jan
Friday 26/2	AU: Private sector credit, Jan US: PCE deflator, Jan

The week ahead

- Given last week's sharp rise in yields, investors will be extra sensitive to any signs of inflation picking up, and monitoring progress against the pandemic.
- In the US, the data calendar is rich with manufacturing, housing and consumer reports. FOMC Chair Powell's monetary policy testimony to Congress caps a busy roster of Fed speakers. The Eurozone CPI (Tue) and US private consumption expenditure deflator (Fri) will provide inflation watchers with updates.
- In Australia, key capital expenditure, construction and wages reports will assist analysts to firm up their estimates of Q4 GDP and the (lack of) strength of the underlying inflation pulse. The Capex report also includes forecasts for business investment, which has been the missing ingredient in the domestic economic recovery to date. COVID-19 vaccination of front-line quarantine workers and health staff begins.

Financial markets charts



Financial markets data: Week ending 19 February 2021

Interest Rates	Close (%)	1 Week (bps)		YTD (bps)	
RBA Cash Rate	0.10	0	–	0	–
90-day BBSW	0.01	0	–	0	–
3-year Australian Bond Yield	0.12	1	▲	2	▲
10-year Australian Bond Yield	1.43	21	▲	46	▲
20-year Australian Bond Yield	2.16	18	▲	45	▲
10-year Australian Break-Even Inflation	1.95	4	▲	18	▲
10-year Australian Real Yield	-0.52	17	▲	28	▲
Fed Funds Rate (lower bound)	0.00	0	–	0	–
2-year US Treasury Yield	0.10	0	▼	-2	▼
10-year US Treasury Yield	1.34	13	▲	42	▲
30-year US Treasury Yield	2.13	12	▲	49	▲
10-year German Bund Yield	-0.31	12	▲	26	▲
NSW TCorp Bonds	Close (%)	1 Week (bps)		YTD (bps)	
4.00% 8 April 2021	0.02	-1	▼	-4	▼
6.00% 1 March 2022	0.10	1	▲	2	▲
4.00% 20 April 2023	0.14	2	▲	1	▲
1.00% 8 February 2024	0.19	2	▲	-1	▼
5.00% 20 August 2024	0.22	2	▲	1	▲
4.00% 20 May 2026	0.65	12	▲	15	▲
3.00% 20 May 2027	0.87	16	▲	22	▲
3.00% 20 March 2028	1.07	17	▲	28	▲
3.00% 20 April 2029	1.25	19	▲	32	▲
3.00% 20 February 2030	1.43	20	▲	34	▲
2.00% 20 March 2031	1.61	21	▲	35	▲
2.00% 20 March 2032	1.89	21	▲	43	▲
2.00% 20 March 2033	1.98	21	▲	37	▲
2.75% 20 November 2025 CIB	-1.28	9	▲	-17	▼
2.50% 20 November 2035 CIB	0.18	13	▲	27	▲
10-year NSW TCorp Bond Yield	1.40	3	▲	16	▲
10-year TCV (Victoria) Spread	0.00	0	–	-2	▼
10-year QTC (Queensland) Spread	-0.05	0	▲	-1	▼
Equities	Close	1 Week		YTD	
S&P/ASX200 (Australia)	6,794	-0.2%	▼	3.1%	▲
S&P500 (US)	3,907	-0.7%	▼	4.0%	▲
FTSE 100 (UK)	6,624	0.5%	▲	2.5%	▲
DJ Stoxx600 (Europe)	415	0.2%	▲	4.0%	▲
Nikkei 225 (Japan)	30,018	1.7%	▲	9.4%	▲
Shanghai Composite (China)	3,696	1.1%	▲	6.4%	▲
Currencies	Close	1 Week		YTD	
AUD/USD	0.787	1.4%	▲	2.3%	▲
EUR/USD	1.212	0.0%	▼	-0.8%	▼
USD/JPY	105.45	0.5%	▲	2.1%	▲
GBP/USD	1.40	1.2%	▲	2.5%	▲
US\$ Index	90.34	-0.2%	▼	0.4%	▲
Commodities	Close	1 Week		YTD	
Brent Oil (US\$/bbl)	62.79	0.6%	▲	21.2%	▲
Iron Ore (US\$/t)	164.95	2.6%	▲	5.8%	▲
Coking Coal (US\$/t)	1,696.00	-0.2%	▼	13.0%	▲
Gold (US\$/oz)	1,784.25	-2.2%	▼	-6.0%	▼

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