Markets Summary – March 2021

Taken from the CBA Global Markets Research report, "March Month in Review", first published on 1 April 2021 and "Dwelling Prices – March 2021" first published on 1 April 2021.

Highlights in March

- It was a volatile month for government bond yields, with a modest fall seen.
- Credit spreads widened while there were lots of new corporate bond issuance.
- The Australian Dollar (AUD) declined slightly.
- Iron ore and coking coal prices fell but were offset stronger thermal coal prices.
- Dwelling prices surged by 2.8%.

Summary

March was a volatile month for markets, with bond yields surging, retreating and then rising late in the month. Equity markets took a breather and risk assets were also hurt.

Equity markets also fluctuated but rose over the month despite issues in the Suez canal, a tech rout and a large hedge fund unwind in leveraged shares.

The AUD fell on a Trade-Weighted Index (TWI) basis and versus the United States Dollar (USD) because of weaker commodity prices and broad USD strength.

Credit was volatile and commodity prices fell over the month.

Cash

The Reserve Bank of Australia (RBA) has kept printing money at a significant rate, as they continued to target the three-year bond yield at 0.1% and also undertaking its bond purchase program. The first round of its Quantitative Easing program is due to finish in the second week of April and then the second round will start.

The effective cash rate remains at 0.03%. Bank Bill Swap Rates (BBSW) edged up over the course of the month, with the six-month BBSW moving at a slightly faster pace than three-month. The market is anticipating the end of the Term Funding Facility in just under three months and the expectation that banks will be out funding again soon. The six-month rate is now at the highest level since October.

Australian and Global Fixed Interest

March was the rise and fall, and rise of bond yields as the backdrop of a strengthening economy, with equity and Covid-19 risks buffeting the markets. By month end, Australian 10-year yields had gone back towards the highs as the US stimulus plan and associated debt supply are significant drivers of the market outlook.

The Australian government 10-year bond yield had four sharp moves over the month. Starting near the highs of 1.85%, yields fell over the first 10 days of the month, touch a low of 1.6%, before immediately bouncing to 1.81%. A second fall in yields came after, with yields dropping from 1.85% to 1.65%, before the yields rose on a more optimistic economic outlook in the final days of the month to close modestly lower than the starting point.

During the month, the RBA was actively involved in yield curve control and bond purchase program to help markets cope with bouts of volatility.

Global Credit

Credit spreads widened slightly in fear of rising volatility in interest rates market. Sectors like Telco's, Consumer Staples and Utilities underperformed as investors rotated into more cyclical sectors such as Real Estate Investment Trusts (REITs), Industrials and Autos.

New corporate bond issuance picked up substantially post reporting season. Most new issues were met with strong investor support. REITs dominated the primary pipeline in March. Offshore companies also issued new bonds in the Australian market in Australia Dollars in March.

We expect AUD credit spreads to remain in a range with the favourable technical backdrop likely to offset the potential impact of offshore market volatilty.

Commodities

Commodity prices were mixed last month. Thermal coal and spot Liquefied Natural Gas (LNG) saw strong price gains in March. Meanwhile, nickel, coking coal and iron ore saw notable declines.

Spot LNG prices improved in March, particularly towards the end of the month. A cool March in Europe kept gas demand elevated. Restocking demand ahead of the North Asian summer also contributed to a lift in spot LNG prices last month. Chinese buyers were particularly active towards the end of March.

Thermal coal prices surged towards the end of March. Prices increased following flooding in the Hunter region in New South Wales. The region accounts for ~70.0% of Australia's thermal coal exports and ~15.0% of Australia's coking coal exports.

Spot coking coal and iron ore prices declined last month on weaker Chinese demand due to steel production cuts in Tangshan. Tangshan accounts for ~14.0% of China's crude steel production.

Oil prices also rose strongly in early March after the Organization of the Petroleum Exporting Countries (OPEC+) decided to only add ~0.15% of global oil supply back to the market in April. Markets were expecting OPEC+ to add ~0.5% of global supply. OPEC+ are currently sidelining ~8.0% of global oil production. Oil prices dipped in late March on demand concerns linked to renewed lockdowns in Europe, as well as rising Covid-19 cases in India and Brazil. The container ship blockage of the Suez Canal, which accounts for ~9.0% of crude oil trade, added oil price volatility towards the end of March. The blockage of the waterway lasted just short of a week.

Global Equities

The volatility that was witnessed in February extended into March, but global shares lifted over both the month and quarter. Focus was on US President Biden's US$1.9 trillion stimulus plan and US$2.3 trillion infrastructure package; Covid-19 vaccine rollouts; new lockdowns in Europe; testimony to US Congress by Federal Reserve chair Jerome Powell and US Treasury Secretary Janel Yellen; and news that a ship had run aground in the Suez Canal.

Over the March quarter, global investors rotated from technology into value and cyclical stocks as US 10-year Treasury yields hit 14-month highs near 1.77% on rising inflation expectations and stronger economic growth. Meme stocks such as GameStop surged, driven by retail investors.

Overall in March, the US Dow Jones index rose by 6.6%, the S&P 500 index gained 4.2% – their strongest gains since November - and the Nasdaq index rose by 0.4%. The German Dax index surged 8.9% and the UK FTSE 100 rose by 3.6%. Japan's Nikkei 225 index lifted 0.7%, while Australia's S&P/ASX 200 index rose 1.8% – its biggest gain since November.

Fifteen out of Australia's 22 sub-industry sectors posted gains in March. Leading the gains was Retailing (up 8.2%) from Telecommunications (up 7.2%). But Materials (down 5.0%) fell most. Of the size categories, the ASX MidCap50 index rose 2.3%, followed by the ASX 50 and ASX 100 indexes (both up 1.8%) and Small Ordinaries index (up 0.2%).

Over the March quarter, the US Dow Jones index rose 7.8%; the S&P 500 index rose 5.8% and the Nasdaq index was up 2.8%. The German Dax index outperformed, up 9.4% with the UK FTSE 100 index 3.9% higher, Japan's Nikkei 225 index was up 6.3%. But Aussie shares lagged, with the S&P/ASX200 index up 3.1%

Australian Dollar

The trade weighted index declined slightly by 0.9% in March. The Australian dollar increased against the Japanese Yen (JPY), Euro (EUR), Swiss Franc (CHF) and New Zealand Dollar (NZD).

AUD/USD traded in a 3 US cent range in March. The movements in AUD/USD largely reflected the USD trend. For example, AUD/USD dropped 2.0 US cents in early March after Chair Powell's speech. AUD/USD gained 1.5 US cents after the Federal Open Market Committee (FOMC) policy meeting.

RBA Governor Philip Lowe struck a dovish tone when he spoke at the AFR Business Summit in mid-March. Governor Lowe also reinforced that a rise in the cash rate is still a long way off. He said wages growth of around 3.0% is needed to lift inflation sustainably within target.

The rebound in the Australian economy also supported the AUD. Employment increased by 88,000 (consensus: 30k) back to pre-pandemic levels. Hours worked also fully recovered. The big lift in jobs alongside an unchanged participation rate saw the unemployment rate drop from 6.3% to 5.8%.

Table 1 – Australian dollar March performance

	AUSTRALIAN DOLLAR		
	End Feb 26-Feb-21	**End Mar 31-Mar-21**	**M/M % Change**
AUD-USD	0.7706	0.7598	-1.4
AUD-JPY	82.13	84.10	2.4
AUD-EUR	0.6383	0.6477	1.5
AUD-GBP	0.5533	0.5512	-0.4
AUD-CHF	0.7006	0.7171	2.4
AUD-CAD	0.9819	0.9545	-2.8
AUD-NZD	1.0653	1.0877	2.1
TWI	64.5	63.9	-0.9
Month High		0.7849	18-Mar-21
Month Low		0.7563	25-Mar-21

Source: Bloomberg, CBA

Australian Property Prices

There is currently a boom in real estate prices that is occurring right across Australia. Indeed the CoreLogic data indicates the same thing whichever way it is sliced – namely that the market is red hot.

According to CoreLogic data property prices surged by 2.8% across the eight capital cities in March. In regional Australia prices rose by solid 2.5% over the month. In many parts of the country it was the biggest monthly percentage increase in prices in over twenty years.

The disparity between prices growth for houses compared to apartments continues. House prices rose by 3.1% in March while prices for units rose by a still strong 1.9%. Dwelling price growth for Sydney was extraordinary in March. Prices leapt by a massive 3.7% (4.3% for houses and 2.1% for units). Prices rises across the rest of the country over the month were still large: Melbourne (2.4%), Brisbane (2.4%), Perth (1.8%), Adelaide (1.5%), Hobart (3.3%), Canberra (2.8%) and Darwin (2.3%).

Auction clearance rates, which are a high frequency momentum indicator, have been hovering at around 80% over the past two months nationally. Historically that level of clearance rates has been consistent with annual growth in prices in excess of 10%.

Turnover has picked up considerably over the past year. CoreLogic estimates that the number of home sales over the March quarter was 21.9% higher than a year ago. Higher turnover boosts consumer spending as households fit out their newly acquired dwellings. It also supports the tax take of state governments through higher stamp duty receipts.

Chart 1 – Dwelling Price moves – by apartment and house

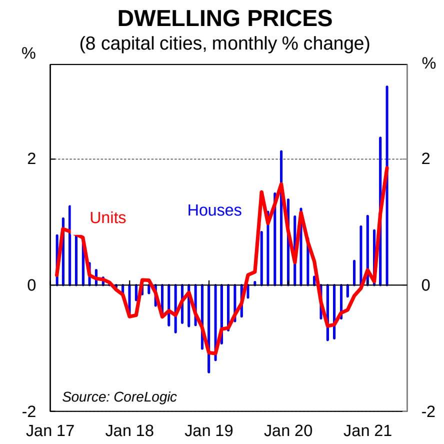


Chart 2 – Dwelling Price Index

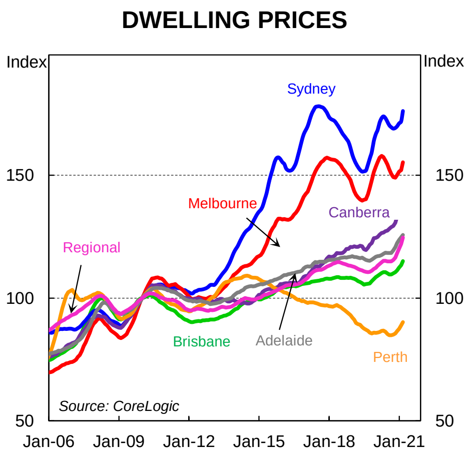


Chart 3 – Prices by capital cities and regions

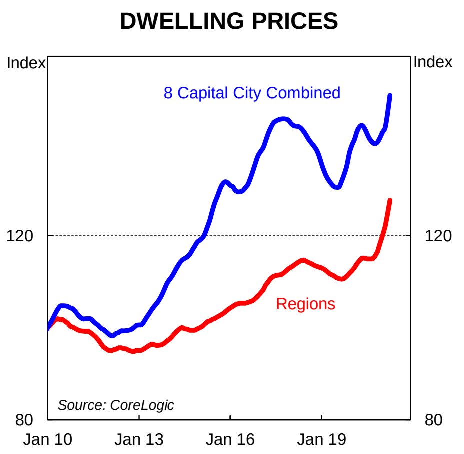
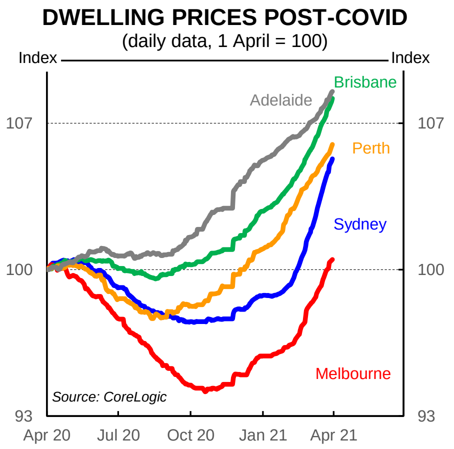


Chart 4 – Dwelling prices since COVID-19



This document has been prepared by AFD Financial Solutions, ABN: 36 125 417 076, AFS Licence: 234951, Filippo Battisti.

The information, opinions, and commentary contained in this document have been sourced from Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. Global Markets Research has given Colonial First State Investments Limited ABN 98 002 348 352, AFS Licence 232468 (Colonial First State) its permission to reproduce its information, opinions, and commentary contained in this document and for Colonial First State to authorise third parties to reproduce this document.

This information was first made available to CBA clients on 1 August 2018 in a CBA Global Markets Research report publication titled, 'July Month in Review'.

This document has been prepared for general information purposes only and is intended to provide a summary of the subject matter covered. It does not purport to be comprehensive or to give advice. The views expressed are the views of Colonial First State at the time of writing and may change over time. This document does not constitute an offer, invitation, investment recommendation or inducement to acquire, hold, vary, or dispose of any financial products.

Colonial First State is a wholly owned subsidiary of the Commonwealth Bank of Australia ABN 48 123 123 124, AFS Licence 234945 (the Bank). Colonial First State is the issuer of super, pension and investment products. The Bank and its subsidiaries do not guarantee the performance of Colonial First State's products or the repayment of capital for investments.

Colonial First State has given Filippo Battisti its permission to reproduce the information, opinions, and commentary contained in this document.

This document may include general advice but does not take into account your individual objectives, financial situation or needs. You should read the relevant Product Disclosure Statement (PDS) carefully and assess whether the information is appropriate for you and consider talking to a financial adviser before making an investment decision. PDSs can be obtained from colonialfirststate.com.au or by calling us on 13 13 36.

Past performance is no indication of future performance. Stocks mentioned are for illustrative purposes only and are not recommendations to you to buy sell or hold these stocks.

This document cannot be used or copied in whole or part without Colonial First State's express written consent. Copyright © Commonwealth Bank of Australia 2018.