Markets Summary – April 2021

Taken from the CBA Global Markets Research report, "April Month in Review", first published on 3 May 2021 and "Dwelling Prices – April 2021" first published on 3 May 2021.

Highlights in April

- Bond yields trended downwards, but were unable to break through old lows.
- A flurry of new deals kept credit investors busy.
- Commodity prices finished mostly higher, with iron ore reaching record highs.
- The Australian ASX 200 index rose for the seventh straight month.
- Dwelling prices rose by 1.8%, with Sydney and Darwin experiencing the strongest price gains.

Summary

April saw strength in equity, commodity and credit markets. Bond yields were confined to tight ranges. The Australian Dollar (AUD) rose from mid-month as the commodity complex continued to perform, and iron ore touched new highs.

Credit spreads have continued to rally (spreads tightening) despite heavy issuance volume. The Australian market continues to see a variety of names come to market. Commodity prices enjoyed a solid rise as iron ore powered higher.

Cash

The Reserve Bank of Australia (RBA) Quantitative Easing purchases continue to tick along, without causing too much of a stir. We've passed through the $A100bn mark for the Bond Purchase Program (BPP) and commenced the second $A100bn. Market consensus is hard to discern exactly, but it remains a widespread view that some further stimulus will be forthcoming – though the shape and timing is hard to be definitive on.

There is more shape returning to the money market, i.e. rates are starting to move, though this is a very slow process. The market expectation of the cash rate dropped back down but three-month Bank Bill Swap Rates (BBSW) rose slightly over April, while the six-month BBSW has risen more noticeably. The six-month BBSW rose 2bp to 0.0994%, while the three-month BBSW rose 0.5bp to 0.04%.

Australian and Global Fixed Interest

There was distinct dimming of optimism and enthusiasm in April. That's not to say the recovery isn't still happening – it clearly is – but there was a touch more rationality about the exuberance on show in

April. The Australian 10-year bond fell by 9.5bp over April 21 to close at 1.6925%. The three-year bond fell by rallied 1.25bp to close at 0.10%.

The fall in yields has been driven by a number of features. The Coronavirus vaccine situation is not as good as it could be in Australia and while the local infection news remains good, small outbreaks in Western Australia notwithstanding, the global news remains sobering. The global bond market had a month of falls, with the United States (US) 10-year yield falling 8bp.

The local data remains strong, with the labour market in particular continuing to show very strong prints. Unemployment dropped to 5.6% at the latest release. Inflation, however, doesn't appear to have been as easy to trigger as some feared. The Consumer Price Index (CPI) result was only 0.6% in the quarter and 1.1% on the year (headline), and the trimmed mean was 0.3% and 1.1% respectively.

Much of the latter part of April was spent considering the upcoming budget – including a speech by Treasurer Frydenberg that highlighted the need for ongoing Government stimulus and the Government's determination not to begin austerity too early. Early in the year such a pronouncement might have triggered a rose in yields and a fear of inflation. But this time around (perhaps calmed by the Quarter 1 2021 CPI figures) the market took more notice of the talk of the need for stimulus, or at least not the start of budget repair. Overall, the speech seems to have had enough of a dampening effect while the actual stimulus itself has passed mostly unnoticed (budget leaks have already suggested another year of the low middle income tax offset and a new childcare plan).

The overall market position remains for a significantly more hawkish RBA over time than the RBA itself is forecasting. This has been a feature of the market for a while, but does seem to be limiting a lift in yields.

Global Credit

A burst of new corporate bond issuance kept investors busy in April. Corporate issuers are filling the void left out by the banks. So far, we've had $A6.9bn of non-financial issuance this year, which is far higher than average January to April issuance volume of $A2.8bn in the last ten years. We estimate that Australian corporates will need to issue at least another $A5bn of non-financial bonds before year end to refinance upcoming maturities. Furthermore, we could see more opportunistic issuance from both local and offshore borrowers to take advantage of the low in yields.

Despite heavier than expected primary volume, secondary spreads have tightened this month for non-financials. Real Estate Investment Trusts (REITs) have been the best performing sector with average spreads moving almost 10bps tighter for the month. Vicinity Centres, and QIC Finance Shopping Centre Fund were among the names with the best performance. We expect retail REITs will continue to outperform this year as shopping centre foot traffic start to normalise. The Australian residential markets have shot the lights out with both Stockland and Mirvac reporting higher than expected residential sales growth. Utilities underperformed in April as investors tried to digest heavy issuance volume.

Commodities

Commodity prices finished mostly higher last month. Iron ore, copper and spot liquefied natural gas (LNG) saw strong price gains in April. Meanwhile, coking coal prices declined.

Spot LNG prices improved in April on restocking demand in Europe and Asia. European gas storage levels currently sit around ~30%, below the 5-year average of 43% for this time of year. Restocking demand in North Asia, particularly Japan and China, was mostly driven for the winter period. That's an early start for winter restocking and reflects all the LNG supply disruptions over the last month.

Copper prices rose in April and touched the highest level since 2011 on 29 April. The surge in copper prices reflects strong actual demand as industrial production and the manufacturing Purchasing Managers Index (PMIs) continue to grow strongly. Demand hopes are helping copper prices higher. These hopes stem from stimulus measures and the rollout of Coronavirus vaccines. Spending on a decarbonised economy has also helped copper prices increase. Around 4 times more copper is used in an electric vehicle than a regular Internal Combustion Engine (ICE) automobile. Renewable power systems are also 5 times more copper intensive than conventional power systems. Supply concerns also helped copper prices higher last month.

Iron ore prices lifted in April and touched record-highs of $US194/t (62% Fe, CFR China) on April 27. Prices lifted on the back of stronger steel prices. A combination of strong downstream demand and announcements of steel production cuts helped steel prices higher. Thermal coal prices fell in April as supply disruptions subsided in the Hunter region.

Global Equities

Global share markets generally rose over April – the Japanese market proving an exception. Key influences over the month include: vaccine rollouts; rising Coronavirus case numbers in India; proposed US infrastructure spending (to be paid in part by higher taxes); corporate earnings results; solid US economic data; and speculation about future monetary policy actions as consumer prices lifted.

Over April, the US Dow Jones index rose 2.7%; S&P 500 index rose 5.2%; and the Nasdaq index lifted 5.4%. In Europe, the UK FTSE index rose 3.8% and the German Dax index rose 3.8%. The Australian ASX 200 index rose for the seventh straight month, up 3.5%. But the Japanese Nikkei fell 1.3%.

The table below shows the performance of Australian share market sector and indexes over April. Across sectors, Information Technology (up 9.7%) and Materials (up 6.8%) outperformed. Energy fell 4.9%. While across size groupings the MidCap50 (up 5.2%) and Small Ordinaries (up 4.9%) did best.

SECTORS & SIZE GROUPINGS	
percent change April 2021	
Info Technology	9.7%
Materials	6.8%
MidCap50	**5.2%**
Small Ordinaries	**4.9%**
Industrials	4.3%
All Ordinaries	**3.9%**
S&P/ASX20	**3.7%**
S&P/ASX200	**3.5%**
S&P/ASX100	**3.5%**
S&P/ASX50	**3.2%**
Financials ex Prop Trusts	3.1%
Financials	3.1%
Health Care	3.1%
Property	2.9%
Consumer Discretionary	2.8%
Telecom	2.7%
Utilities	-1.2%
Consumer Staples	-2.5%
Energy	-4.9%

Source: iress, CommSec

Australian Dollar

The Australian trade weighted index increased by 0.8% in April. The AUD increased most against the United States Dollar (USD) and British Pound Sterling (GBP).

AUD/USD oscillated around 0.76 in the first half of April. At its regular policy meeting, the RBA acknowledged the Australian economic recovery was ‘stronger than had been expected’. However, the RBA still expect wage and price pressures to remain subdued ‘for some years’. The RBA also said it will be monitoring trends in home borrowing carefully and it is important that lending standards are maintained.

Australian retail sales in April were less weak than expected (-0.8%/mth versus -1.1%/mth). The Australian trade surplus, while huge, was smaller than expected.

AUD/USD increased by 1.5 cents during the middle of April and oscillated around 0.7750 for the remainder of the month. A weaker USD and high commodity prices underpinned AUD.

Table 1 – Australian dollar April performance

	AUSTRALIAN DOLLAR		
	End Mar	**End Apr**	**M/M %**
	31-Mar-21	**30-Apr-21**	**Change**
AUD-USD	0.7598	0.7716	1.6
AUD-JPY	84.10	84.34	0.3
AUD-EUR	0.6477	0.6415	-1.0
AUD-GBP	0.5512	0.5582	1.3
AUD-CHF	0.7171	0.7045	-1.8
AUD-CAD	0.9545	0.9483	-0.6
AUD-NZD	1.0877	1.0770	-1.0
TWI	63.9	64.4	0.8
Month High		0.7818	29-Apr-21
Month Low		0.7532	1-Apr-21

Source: Bloomberg, CBA

Australian Property Prices

The CoreLogic data shows that dwelling prices rose by a strong 1.8% across the eight capital cities combined in April 2021. Prices rose in all of the capital cities in the month. Dwelling prices in the combined regions were up by 1.9% in April.

The current cycle is showing much stronger gains for detached houses compared to units. Since September 2020 prices for detached houses have risen by 11.3% across the eight capital cities combined compared to a 4.3% lift for units. This trend continued in April with detached house prices rising by 2.0% in the month and units rising by 1.2%. A desire for more space after the lockdowns and restrictions experienced during the pandemic as well as a market dominated by owner-occupier activity are factors likely boosting detached home prices relative to apartments. Once borders are reopened and student numbers rise we expect that there will be some catch up for units.

Regional areas have also seen stronger price gains than the eight capital cities combined. Once again the desire for more space and people being able to work from home has likely increased the relative attractiveness of regional areas.

Across the capital cities Sydney led the charge again in April with prices rising by 2.4% following a 3.7% in March. Since the low in September 2020, dwelling prices in Sydney are up a massive 10.7%. Sydney prices are also 7.4% above their previous peak in April 2020. Prices also rose by 2.7% in Darwin in the month. Over the year price gains range from just 2.2% in Melbourne to 15.3% in Darwin.

The rising housing market looks to be generating some positive wealth effects with car sales, the category of spending most sensitive to changes in dwelling prices, lifting. Turnover for houses has also lifted sharply since mid-2020. Stronger turnover tends to lead to a lift in spending on things like household furnishing and equipment. Turnover for units remains relatively low.

Chart 1 – Dwelling Price moves – by apartment and house

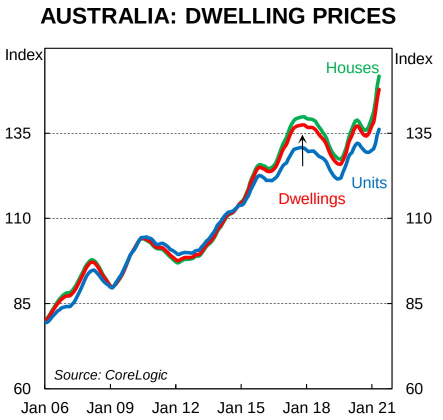


Chart 2 – Prices by capital cities and regions

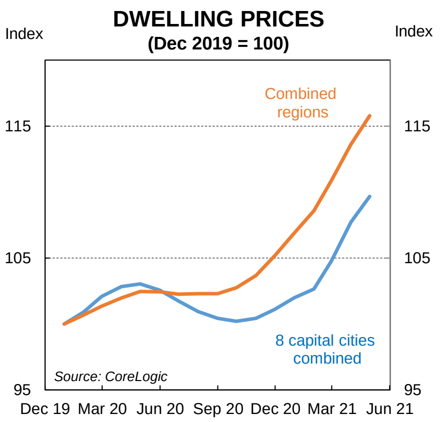
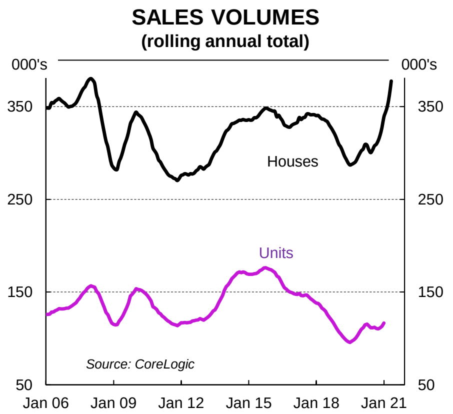


Chart 3 – Sales volumes



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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'.

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