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WEEKLY MARKET UPDATE / OVERVIEW FOR THE WEEK STARTING 30 AUGUST 2021

Major upcoming global economic releases and events

DATE	DATA/EVENT	PREVIOUS	CONSENSUS
31-Aug-21	Australia building permits m/m (Jul)	-6.7%	-5.0%
31-Aug-21	Europe core inflation rate y/y (Aug)	0.7%	1.5%
01-Sept-21	Australia GDP growth rate q/q (Q2)	1.8%	0.5%
01-Sept-21	Europe unemployment rate (Jul)	7.7%	7.6%
02-Sept-21	Australia home loans m/m (Jul)	-2.5%	-2%
03-Sept-21	Europe retail sales m/m (Jul)	1.5%	0.2%
03-Sept-21	US unemployment rate (Aug)	5.4%	5.2%

Source: Bloomberg, UBS Global Research, Tradingeconomics.com

What to watch this week

Australia

Domestic data was mixed last week, with construction work underperforming expectations in Q2 but private capex proving stronger than expected over the same period.

The GDP print this week will be the domestic focus, although the conditions that existed throughout the majority Q2 are vastly different to those facing the majority of Australians today. Despite this change in conditions, the performance of the economy in Q2 will provide a guide as to how the economic recovery was unfolding, and potentially what can be expected once restrictions are lifted. CBA is forecasting 0.4% GDP growth in the second quarter, while UBS is more optimistic at 0.7% (although citing downside risks). A negative result, though not expected, would consign the economy to a double dip recession, as a sharp drop in activity is all but guaranteed in Q3.

As well as GDP data, building permits, private sector credit, and home loan numbers are due to be published in the week ahead.

US

Economic data was largely overlooked last week, as investors awaited the Jackson Hole economic symposium, which began on Friday. PMI data was the key release, and the result was mixed, with the manufacturing sector holding up well, but services falling more than expected. The headline index fell sharply, but at 55.4 remains well above the neutral level of 50.

The Jackson Hole economic symposium was eagerly awaited last week, with Fed Chair Powell's speech the highlight. Powell's comments highlighted that the Fed's asset purchase program is entirely separate from interest rates, with the timing of tapering having no bearing on the path of interest rates. The former being controlled by the general health of the economy, and the latter by the labour market and inflation target. A formal announcement on tapering is expected to come in the fourth quarter this year.

Non-farm payrolls and consumer confidence are the data highlights this week.

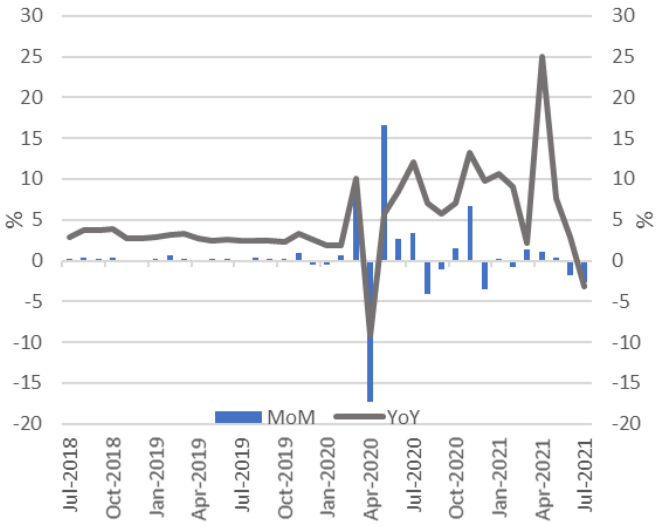
Europe

European PMI data outperformed the UK equivalent in August, with the UK services PMI falling more than expected. The service sector decline was in part because business are facing staff shortages as a result of the so-called "Pingdemic", where people are being forced to isolate when they have been in contact with a Covid positive case, meaning that they are unable to work.

Vaccination rates continue to dominate headlines and drive the ability of nations to remove restrictions on their populations. The UK was a leader among developed market peers, and while Europe has rapidly made ground, the pace of vaccinations in the EU has now slowed to that of the UK and US. Within Europe, there is still significant variation between countries, with Spain, Portugal and France notable outperformers in terms of vaccination pace.

Inflation data, retail sales and the unemployment rate are the European highlights this week. There are no major data releases scheduled in the UK.

Chart of the week—Australian retail sales



Source: Australian Bureau of Statistics

Retail sales fell 2.7% in July, a little below the -2.3% consensus estimate. July saw lockdown conditions in Greater Sydney across the full month and various stages of lockdown in Victoria, Queensland and South Australia. Not surprisingly, New South Wales experienced a sharper drop than other States, down almost 9% over the month. Victoria registered a positive result, largely due to a rebound in spending in early July after the prior lockdown in June.

A deteriorating Covid-19 picture and associated broadening of restrictions will likely see ongoing weakness in retail sales in the months ahead. The key to the eventual recovery will be consumer behaviour when lockdowns end. The sharp bounce following the easing of prior restrictions may be impacted by surging Covid-19 cases this time around, making the magnitude and speed of any recovery extremely difficult to predict.

Financial market movements

INDICATOR	AS AT 27-AUGUST-21	1 WEEK CHANGE	1 YEAR CHANGE	3 YEAR CHANGE (ANNUALISED)	5 YEAR CHANGE (ANNUALISED)
EQUITIES		%	%	%	%
S&P/ASX 200 Accum. Index	85,376.27	0.52	27.16	9.45	10.62
US S&P 500 TR^ Index	9,404.15	1.54	30.48	17.96	17.89
Europe STOXX TR Index	976.70	0.97	31.35	9.27	9.90
UK FTSE 100 TR Index	7,021.56	0.93	24.12	2.18	4.95
Japan TOPIX TR Index	2,866.37	2.56	22.33	5.58	10.08
MSCI World ex-Australia TR Index	7,141.35	1.49	29.71	14.58	14.70
FIXED INCOME	%	BP	BP	BP	BP
Australian 90-day bank bill yield	0.01	-	-8.17	-65.21	-34.64
Australian 10-year bond yield	1.19	11.10	27.50	-45.17	-13.32
US 90-day bank bill yield	0.04	0.13	-3.89	-67.31	-5.20
US 10-year bond yield	1.31	5.20	55.48	-51.56	-6.46
UK 10-year bond yield	0.58	5.50	24.20	-23.39	0.28
German 10-year bond yield	-0.42	7.20	-1.60	-26.70	-7.03
COMMODITIES		%	%	%	%
Gold	1,817.57	2.05	-5.80	14.48	6.59
Oil—West Texas Crude	68.74	10.30	59.71	-0.06	7.61
Iron Ore Spot Price Index	159.59	3.42	30.35	33.45	21.31
CURRENCIES		%	%	%	%
AUD:USD	0.73	2.44	-0.95	-0.02	-0.70
EUR:USD	1.18	0.82	-1.19	0.25	1.06
GBP:USD	1.38	1.01	2.92	1.85	0.98
USD:JPY	109.87	0.08	3.74	-0.54	1.51
NZD:USD	0.70	2.40	3.95	1.39	-0.70
CHF:USD	1.10	0.49	-0.96	2.08	1.40
AUD:EUR	0.62	1.59	0.93	-0.52	-1.71
AUD:GBP	0.53	1.33	-3.76	-1.83	-1.67
AUD:JPY	80.26	2.41	2.75	-0.57	0.80

*BP = Basis Point, Source: Bloomberg; ^TR = Total return.

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