

Morning Report

Monday, 02 November 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,927.6	-0.5%	Last		Overnight Chg			Australia		
US Dow Jones	26,501.6	-0.6%	10 yr bond	99.15				90 day BBSW	0.06	0.00
Japan Nikkei	22,977.1	-1.5%	3 yr bond	99.83				2 year bond	0.11	0.00
China Shanghai	3,379.5	-1.5%	3 mth bill rate	99.97				3 year bond	0.12	0.00
German DAX	11,556.5	-0.4%	SPI 200	5,942.0			52	3 year swap	0.09	0.00
UK FTSE100	5,577.3	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.83	0.01
Commodities (close & change)*			TWI	60.3	-	-	59.5	United States		
CRB Index	144.7	-0.1	AUD/USD	0.7044	0.7072	0.7012	0.7028	3-month T Bill	0.09	0.00
Gold	1,878.8	11.2	AUD/JPY	73.50	73.92	73.15	73.56	2 year bond	0.15	0.01
Copper	6,713.8	-10.3	AUD/GBP	0.5425	0.5456	0.5418	0.5433	10 year bond	0.87	0.05
Oil (WTI)	35.8	-0.4	AUD/NZD	1.0611	1.0635	1.0595	1.0625	Other (10 year yields)		
Coal (thermal)	60.1	0.3	AUD/EUR	0.5995	0.6050	0.6009	0.6035	Germany	-0.63	0.01
Coal (coking)	128.7	-0.2	AUD/CNH	4.7393	4.7242	4.6967	4.7062	Japan	0.04	0.01
Iron Ore	116.2	2.0	USD Index	93.5	94.1	93.7	94.0	UK	0.26	0.04

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: The looming US election and rising infections across Europe and the US continued to cause investors to liquidate both equities and government bonds.

The VIX volatility index rose on Friday and remains elevated at 38.0. The higher the VIX index, the more risk averse investors are feeling.

Share Markets: US share markets finished in the red on Friday. Technology stocks were the hardest hit, reflecting investor disappointment in the earnings results from Apple and Twitter. The S&P 500 index fell 40 points (or -1.2%) on Friday and slumped 5.6% for the week - its worst ever weekly loss in the week before a presidential election. The Dow Jones fell 158 points (or -0.6%) on Friday while the Nasdaq dropped 274 points (or -2.5%).

Interest Rates: US government bond yields rose across the curve on Friday (i.e. government bond prices dropped). The 2-year yield rose 1 basis point while the 10-year yield increased 5 basis points, leading to a steepening of the US yield curve.

Foreign Exchange: The US dollar strengthened against a basket of major currencies in Friday night's trading session. The AUD/USD pair weakened driven by the renewed strength in the USD. AUD/USD fell to an overnight low of 0.7012, which is very close to the key support level of 0.7000. In recent sessions, the AUD/USD exchange

rate has neared this 0.7000 level. The early part of this week is a big test for the AUD, as the Reserve Bank meets tomorrow and is expected to deploy a package of stimulus measures. The US election is also taking place on Tuesday US time.

Commodities: Commodities were mostly weaker on Friday, including oil, copper and coal.

COVID-19: Yesterday, Australia recorded its first day with no local cases of Covid-19 transmission since June. On Friday, WA's Premier said interstate borders will be removed and replaced with a "controlled interstate regime" from midnight on November 14. Travellers from ACT, QLD, NT, SA and Tasmania will be able to travel freely in WA. People from NSW and Victoria will still need to self-quarantine at suitable premises for 14 days.

On Saturday, the UK's Prime Minister ordered a one-month stay-at-home policy for all of England starting Thursday, with waivers for schools, universities, and essential stores.

Australia: Private sector credit increased 0.1% in September. It was the first positive reading in four months. Business credit contracted 0.3% and "other personal credit" slid 0.8%. Housing credit rose 0.4%, mainly lifted by a strong 0.5% reading in credit to owner-occupiers.

The producer price index rose 0.4% in the September quarter, mainly lifted by increases in

childcare services (+48.7%). The annual change decreased by 0.4%, the same reading as the June quarter.

Europe: Eurozone GDP soared by 12.7% in Q3, the sharpest rise on record, as the bloc bounced back from the depths of the Covid-19 lockdown. Despite the rebound, GDP is still 4.3% lower when compared to the same quarter a year ago.

The unemployment rate was unchanged in September at 8.3% and core inflation's annual growth rate was also unchanged at 0.2% - a very tepid pace.

Japan: Industrial production rose 4.0% in September, a stronger pace than seen in August (+1.0%). The annual figure improved from a fall of 13.8% in August to a decline of 9.0% in September.

China: The composite purchasing managers' index (PMI) fell slightly in October to 55.3, from 55.1 in September. The manufacturing PMI also edged slightly lower to 51.4, but a recovery in consumer spending helped lift the services PMI from 55.9 in September to 56.2 in October.

New Zealand: Consumer confidence jumped to a 10-month high in October. The index climbed to 108.7 from 100 in September. New Zealanders are more positive about current and future economic conditions. The survey also revealed they are more willing to purchase major household items.

United States: The Democrats Joe Biden leads Donald Trump in a series of polls released Sunday, remaining ahead nationally and in battleground states. However, some races remain extremely close. The New York Times and Siena College showed Biden ahead in Pennsylvania, Florida, Arizona and Wisconsin, all key swing states that Trump carried in 2016. An ABC/Washington Post poll had less good news for Biden, showing Trump narrowly ahead in Florida, 50%-48%. The same poll had Biden well ahead, 51%-44% in Pennsylvania.

The US Federal Reserve sharply reduced the minimum loan size in its Main Street Lending Program, potentially opening the emergency facilities to more businesses at a time when Congress remains deadlocked on additional aid. The minimum loan size was reduced to \$100,000 (from \$250,000). Fewer than 400 loans have been made since the program went operational in July for a total of \$3.7 billion, a fraction of the total \$600 billion potentially available. The Fed also changed the fee structure so that banks will get paid more for facilitating loans under \$250,000.

The final reading for consumer sentiment of 81.8

published by the University of Michigan was only 0.6 points higher than the preliminary reading. It is only 1.4 points firmer than September's report. October's reading remains significantly below the 100 level that divides the pessimists from the optimists. Fears over rising infections and the approaching election has prevented sentiment recording a deeper improvement. These concerns are also reflected in the expectations index remaining below the current conditions index (79.2 versus 85.9).

Personal income rose by 0.9% in September but dropped 2.7% in the September quarter. The drop in the quarter highlights the challenging financial situation that many Americans face.

The core personal consumption expenditure (PCE) deflator rose by 0.2% in September and on an annual basis grew at a slightly faster pace of 1.4% in September (compared with 1.3% in August).

The MNI Chicago business barometer dipped to 61.1 in October, after recording a sharp increase in September. However, it still marks the fourth consecutive reading above the 50-mark after sitting below it for a year.

The employment cost index grew by 0.5% in Q3, the same pace as in Q2.

Today's key data and events:

AU AiG Perf. of Manufacturing Index Oct prev 46.7 (8:30am)
 NZ Building Permits Sep prev 0.3% (8:45am)
 AU CL Dwelling Prices Oct exp 0.2% prev -0.2% (10:00am)
 AU MI Inflation Gauge Oct y/y prev 1.3% (11:00am)
 AU Job Advertisements Oct prev 7.8% (11:30am)
 AU Building Approvals Sep exp -3.0% prev -1.6% (11:30am)
 AU Housing Finance Sep (11:30am)
 Total exp -2.0% prev 12.6%
 Owner-occupier exp -2.0% prev 13.6%
 Investor exp -2.0% prev 9.3%
 CH Caixin Mfg PMI Oct exp 52.8 prev 53 (12:45pm)
 US ISM Mfg Index Oct exp 55.6 prev 55.4 (2:00am)
 US Construction Spending Sep exp 0.9% prev 1.4% (2:00am)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

Besa Deda, Chief Economist
 Ph: 02-8254-3254

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist

Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316

Economist

Felipe Pelaio
felipe.pelaio@banksa.com.au
(02) 8254 0646

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