

Thursday, 3 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,590	0.0%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	29,884	0.2%	10 yr bond	99.00	-0.02			90 day BBSW	0.02	0.00
Japan Nikkei	26,801	0.1%	3 yr bond	99.82	0.00			2 year bond	0.10	0.00
China Shanghai	3,616	-0.1%	3 mth bill rate	99.98	-0.01			3 year bond	0.12	0.00
German DAX	13,313	-0.5%	SPI 200	6,614.0	20			3 year swap	0.14	0.00
UK FTSE100	6,463	1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.01	0.02
<b>Commodities (close &amp; change)*</b>			TWI	61.3	-	-	61.2	<b>United States</b>		
CRB Index	159.4	0.5	AUD/USD	0.7371	0.7420	0.7351	0.7415	3-month T Bill	0.07	-0.01
Gold	1,831.13	15.9	AUD/JPY	76.87	77.44	76.85	77.43	2 year bond	0.16	-0.01
Copper	7,668.00	-20.0	AUD/GBP	0.5489	0.5544	0.5487	0.5546	10 year bond	0.94	0.01
Oil (WTI)	45.05	0.5	AUD/NZD	1.0431	1.0491	1.0424	1.0495	<b>Other (10 year yields)</b>		
Coal (thermal)	70.90	1.8	AUD/EUR	0.6104	0.6128	0.6090	0.6119	Germany	-0.52	0.01
Coal (coking)	105.14	0.1	AUD/CNH	4.8261	4.8502	4.8212	4.8507	Japan	0.03	0.01
Iron Ore	131.02	3.8	USD Index	91.2	91.50	90.99	91.0	UK	0.35	0.01

Data as at 8:50am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** The UK became the first western country to approve Pfizer/BioNTech's COVID-19 vaccine. US stimulus talks made some progress. US equities hit a new record high. The US dollar index fell to a fresh two-year low and the AUD/USD hit its highest level since August 2018.

**Share Markets:** US equity markets hovered near record highs overnight. The Dow Jones edged 0.2% higher while the S&P 500 rose 0.2% to a new record high.

Despite the stronger-than-expected GDP numbers yesterday, the ASX 200 edged just 2 points higher.

**Interest Rates:** US government bond yields were little changed overnight. The US 2-year government bond yield fell 1 basis point and the US 10-year bond yield rose 1 basis point.

The Australian bond yield curve steepened yesterday. The 3-year government bond rate rose 1 basis point to 0.12% while the 10-year rate was up 6 basis points to 0.98%.

**Foreign Exchange:** The AUD/USD pair strengthened overnight and broke above key resistance of around 0.7415 to reach a high of 0.7420 – the highest value since early August of 2018.

The stronger AUD reflects ongoing weakness in the USD index. The USD index fell to a fresh two-year low overnight of 90.99. The 91.0 level was a key

support level for the USD. The break under this level likely opens the US dollar up to a wave of fresh selling and another leg down.

The ongoing weakness in the US dollar and the technical picture for the AUD/USD suggests the AUD/USD will eye 0.7600-0.7700 in coming months.

Meanwhile, EUR/USD rose to a fresh three-year high of 1.2119. The GBP/USD fell from 1.3441 to 1.3288 as Brexit talks continued to stall.

**Commodities:** Oil edged higher with news of a fall in US oil inventories and little progress on OPEC+ plans to delay production cuts early next year. Gold was stronger while copper prices declined.

**COVID-19:** British health authorities approved the Pfizer/BioNTech vaccine yesterday, making the UK the first western country to approve this COVID-19 vaccine. In the US, the Food and Drug Administration (FDA) will hold a meeting on December 10 to decide on approval of this vaccine.

**Australia:** GDP recovered 3.3% in the September quarter, close to our forecast of 3.0%, as the economy emerged from a national lockdown and some restrictions were relaxed. It is the biggest quarterly growth rate since early 1976. But it still leaves economic output 4.2% lower than at the end of 2019 and it will take at least another year to return to pre-pandemic output levels.

Consumer spending led the rebound in economic activity. Household consumption surged by a record 7.9% in the September quarter after a record plunge of 12.5% in the June quarter. Spending on services steered the increase in consumption, especially spending on eating out and domestic holidays.

A recovery is underway in Australia and yesterday's data confirms this, but it is clear Australia remains in the grips of the pandemic. Without significant stimulus from the Federal government, State governments and the central bank, the economic picture would no doubt have looked far uglier. The household savings ratio tells the story.

The household savings ratio shot up from 5.3% in the final quarter of last year to a record high of 22.1% in the June quarter. It came down slightly to 18.9% in the September quarter, but remains incredibly elevated. It tells us that consumers remained cautious in the quarter, reflected in elevated savings and a desire to continue repairing household balance sheets. Businesses also remained in their shells, not even poking a head out. Business investment fell again in the September quarter, taking the string of quarterly falls to six.

The recovery in the September quarter was held back by Victoria's second wave of infections and the associated second lockdown. Victoria was the only State to not recover in the September quarter. NSW and Queensland experienced the strongest comebacks. Queensland was also the only State to fully regain the economic output lost over the first half of this year.

The recent news around an effective vaccine is encouraging. If this vaccine can be effectively distributed, then the economic recovery will gather momentum next year. For now, the economic recovery remains lopsided, fragile and bumpy. The economy also remains reliant on policy stimulus; without it the economy could stumble.

Speaking at the House of Representatives Standing Committee on Economics yesterday, Reserve Bank Governor Philip Lowe reiterated his opposition to a negative cash rate saying that he was sceptical regarding its benefits. Deputy Governor, Guy Debelle said that the Reserve Bank was learning along the way as it implemented its quantitative easing program noting that it was too early to assess its impact.

**Europe:** The unemployment rate in the Eurozone region declined from a revised 8.5% in September

to 8.4% in October.

Growth in producer prices remained unchanged in October at 0.4%, taking the annual rate to a contraction of 2.0%.

**New Zealand:** Lower prices for dairy, meat and logs led to the largest drop in the terms of trade since the June quarter of 2009. The terms of trade fell 4.7% in the September quarter.

**United States:** Businesses added fewer jobs in November, disappointing market expectations. Private payrolls rose by 307,000 in November, the smallest gain since July, according to the latest ADP report. It follows a revised rise of 404,000 in October. The spread of the virus across US states, and the resulting lockdown measures, are largely responsible for the weak result.

The Federal Reserve released its Beige Book survey overnight. It indicated that the pace of economic recovery remained moderate across much of the country. However, some Federal Reserve districts showed signs of an economic slowdown due to the high number of COVID-19 infections.

US House Speaker Nancy Pelosi and Senate Minority Leader Chuck Schumer backed a \$908 billion bipartisan stimulus proposal as a framework for new negotiations with Republicans, dramatically cutting their demand for a \$2.4 trillion package in an effort to break a six-month stalemate. The concession puts the ball in Mitch McConnell and the White House's court to reach a compromise before the end of year. Lawmakers are aiming for a deal by the weekend, though that timetable is optimistic, House Majority Leader Steny Hoyer said before the announcement.

**Today's key data and events:**

AU AiG Perf of Construction Nov prev 52.7 (8:30am)

NZ Building Permits Oct prev 3.6% (8:45am)

AU Housing Finance Oct (11:30am)

Total exp 2.0% prev 5.9%

Owner-occupier exp 2.8% prev 6.0%

Investor exp 1.2% prev 5.2%

AU Trade Balance Oct exp \$5.8bn prev \$5.6bn (11:30am)

CH Caixin Services PMI Nov exp 56.4 prev 56.8 (12:45pm)

EZ Retail Sales Oct exp 0.7% prev -2.0% (9pm)

US Init Jobless Claims Nov 28 exp 775k prev 778k (12:30am)

US ISM Non-Mfg Nov exp 55.8 prev 56.6 (2am)

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.

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