

Morning Report

Friday, 4 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,615	0.4%	Last		Overnight Chg			Australia		
US Dow Jones	29,970	0.3%	10 yr bond	98.99	0.01			90 day BBSW	0.02	0.00
Japan Nikkei	26,809	0.0%	3 yr bond	99.82	0.00			2 year bond	0.10	0.00
China Shanghai	3,608	-0.2%	3 mth bill rate	99.99	0.00			3 year bond	0.13	0.01
German DAX	13,253	-0.5%	SPI 200	6,611.0	-7			3 year swap	0.14	0.00
UK FTSE100	6,490	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.02	0.03
Commodities (close & change)*			TWI	61.2	-	-	61.5	United States		
CRB Index	159.3	-0.1	AUD/USD	0.7415	0.7450	0.7398	0.7443	3-month T Bill	0.08	-0.01
Gold	1,841.63	10.4	AUD/JPY	77.43	77.57	77.17	77.32	2 year bond	0.15	-0.01
Copper	7,671.25	3.3	AUD/GBP	0.5546	0.5552	0.5511	0.5534	10 year bond	0.91	-0.02
Oil (WTI)	45.65	0.4	AUD/NZD	1.0495	1.0523	1.0476	1.0517	Other (10 year yields)		
Coal (thermal)	74.30	2.8	AUD/EUR	0.6119	0.6135	0.6108	0.6128	Germany	-0.56	-0.04
Coal (coking)	108.00	2.9	AUD/CNH	4.8507	4.8693	4.8434	4.8636	Japan	0.03	0.00
Iron Ore	132.54	1.5	USD Index	91.0	91.1	90.5	90.7	UK	0.32	-0.03

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: US share markets hovered near record highs during trade overnight. Investors were optimistic that a US stimulus package would be forthcoming. US economic data and an easing of OPEC output cuts was also supportive of risk appetites. However, the US dollar continued to slide, hitting its lowest level since April 2018. The AUD/USD continued to stretch higher, reaching its highest rate in more than two years.

Share Markets: The S&P 500 share market index hit a new record high during trade but slipped 2 points at the close. The Dow Jones finished 86 points higher (or +0.3%). The prospect of more US government relief has helped American investors whet their appetites for risk. The threat posed to the US economy from rising infections and fatalities was not front of mind.

Interest Rates: US bond yields fell slightly across the yield curve overnight. The US 2-year bond yield and 10-year bond yield each dropped back 1 basis point.

Foreign Exchange: The Australian dollar continues to stretch higher. In overnight trade, it reached a high of 0.7450 after breaking above key resistance of 0.7415 in the previous night's trading session. It is the highest AUD/USD rate since 9 August of 2018. The price action in the AUD/USD and the break of the USD index below a key long-term support level (at 91.0) yesterday suggests the AUD/USD will

stretch higher. The AUD/USD is likely to try and probe 0.7450 again over the next 24 hours. We continue to expect the AUD/USD to strike 0.7600-0.7700 in the short term.

There is also a real prospect the AUD reaches US 80 cents in the first half of next year. An improvement in risk appetites, as well as elevated iron ore prices, will help boost demand for the Australian dollar.

The USD continued to weaken overnight, making a fresh low of 90.5 before recovering slightly. It is the lowest USD index value since April of 2018.

Commodities: OPEC agreed to ease its output cuts for oil next year more gradually than previously planned. This decision gives the market more time to absorb the extra supply. OPEC will add 500,000 barrels a day of production in January, which is a quarter of what would have occurred under the prior plan. Ministers will then hold monthly consultations to decide whether to approve similar-sized hikes in subsequent months. Crude futures extended gains.

COVID-19: The number of new global infections yesterday topped 700,000, which was a new daily peak.

Australia: New housing lending excluding refinancing rose by 0.7% in October to a new record high. The monthly growth rate, however, has

slowed from the pace of recent months.

The value of new loans is up 15.1% from the pre-pandemic level in February, suggesting a solid recovery in housing lending is underway. Moreover, the value of new loans is up 23.3% on a year earlier, which is the fourth consecutive month of double-digit annual growth.

The recovery in housing lending has been broad based but there has been a stronger surge in demand from owner occupiers. Since the trough this year in May, owner-occupier lending has risen by 42.0% whilst investor lending has lifted 29.5%.

First-home buyers are returning to the housing market in droves. Financing for first-home buyers rose 3.4% in October and was 35.3% of all owner-occupier lending. It is the highest share since the series began (in 1991).

Lending rose in most States and Territories in October. Victoria, which was still in lockdown during October, was an exception with new loans down 11.1% in the month.

The trade surplus widened to \$7.5 billion in October, continuing the run of uninterrupted trade surpluses since late 2017. The outcome beat market expectations. Exports rose 5.4% in the month, driven by the strong growth in the exports of metal ores and iron ore. Indeed, iron-ore exports reached a fresh record. Imports rose by 0.4% in October.

The performance of construction index rose 2.6 points in November to 55.3. The reading sits above 50, indicating activity is expected to expand in the sector in coming months.

China: The services sector continued to show signs of recovery in November. The Caixin services purchasing managers' index (PMI) rose 1.0 point to 57.8 in November, the highest reading since June. Results above 50 signal an expansion in activity.

Eurozone: Retail sales in October snapped back to growth, but the recovery might be short-lived with rising infections and restrictions across much of the bloc. Retail sales lifted by 1.5% in October, after dropping 1.7% in September. Annual growth improved from 2.2% in September to 4.3% in October.

New Zealand: Home-building approvals climbed 8.8% in October, after a 3.6% increase in September. Over 3,600 dwellings were approved, mostly for stand-alone housing.

United Kingdom: The European Union's chief Brexit negotiator, Barnier, is poised to leave trade talks in London on Friday morning to return to Brussels.

Media reports suggest the outline of a deal could emerge within the next 48 hours.

United States: Initial jobless claims decreased by 75k last week, falling for the first time in three weeks. The four-week moving average for new jobless claims also fell, by 11.3k to 739.5k.

New claims have not yet broken below 700k since the start of the pandemic, although they have come down significantly since hitting a high of nearly 7 million in late March.

Initial jobless claims may struggle to keep falling amid rising COVID-19 infections and hospitalisations.

House speaker Nancy Pelosi and Senate Majority Leader Mitch McConnell met overnight to discuss a COVID-19 stimulus deal. A spokesman for Pelosi said the pair talked "about their shared commitment to completing an omnibus [spending bill] and COVID relief as soon as possible". Earlier, McConnell said he sees "hopeful signs" for reaching a relief agreement before the end of the year.

The ISM services index fell by 0.7 of a point to 55.9 in November, from 56.6 in October. The result was slightly stronger than consensus (55.8).

The final Markit readings for the PMIs for services and composite for November were revised up from their preliminary readings. Both outcomes hit their highest levels since the data goes back. The services PMI hit 58.4 and the composite PMI struck 58.6.

Today's key data and events:

AU Retail Sales Oct exp 1.6% prev -1.1% (11:30am)
 EZ Germany Factory Orders Oct exp 1.5% prev 0.5% (6pm)
 US Employment Report Nov (12:30am)
 Non Farm Payrolls exp 478k prev 638k
 Unemployment Rate exp 6.8% prev 6.9%
 Average Earnings exp 0.1% prev 0.1%
 US Trade Balance Oct exp -\$64.8bn prev -\$63.9bn (12:30am)
 US Factory Orders Oct exp 0.8% prev 1.1% (2am)
 US Durable Goods Orders Oct Final exp 1.3% prev 1.3% (2am)
 US Fed Governor Bowman Speaks (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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