

Morning Report

Monday, 7 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,634	0.3%	Last		Overnight Chg			Australia		
US Dow Jones	30,218	0.8%	10 yr bond	98.95	-0.06			90 day BBSW	0.02	0.00
Japan Nikkei	26,751	-0.2%	3 yr bond	99.82	0.00			2 year bond	0.10	0.00
China Shanghai	3,611	0.1%	3 mth bill rate	99.99	0.00			3 year bond	0.13	0.00
German DAX	13,299	0.3%	SPI 200	6,682.0	42			3 year swap	0.14	0.00
UK FTSE100	6,550	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.99	-0.02
Commodities (close & change)*			TWI	61.5	-	-	61.4	United States		
CRB Index	159.9	0.6	AUD/USD	0.7443	0.7445	0.7410	0.7432	3-month T Bill	0.07	-0.01
Gold	1,838.86	-2.2	AUD/JPY	77.32	77.50	77.04	77.37	2 year bond	0.15	0.00
Copper	7,753.75	82.5	AUD/GBP	0.5534	0.5563	0.5489	0.5552	10 year bond	0.97	0.06
Oil (WTI)	46.26	0.6	AUD/NZD	1.0517	1.0569	1.0510	1.0539	Other (10 year yields)		
Coal (thermal)	75.80	1.5	AUD/EUR	0.6128	0.6133	0.6093	0.6124	Germany	-0.55	0.01
Coal (coking)	108.00	0.0	AUD/CNH	4.8636	4.8652	4.8334	4.8401	Japan	0.02	0.00
Iron Ore	140.29	7.8	USD Index	90.70	90.87	90.48	90.70	UK	0.35	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: The US jobs report was disappointing but investors believe the lacklustre economic data will add urgency to the stimulus talks. These beliefs lifted the major US share markets to record highs on Fridays and helped the US dollar recover.

Share Markets: All major US share market indexes closed at all-time highs, the first such synchronisation since January 2018. US jobs data was disappointing. But the data fuelled hopes that more Federal stimulus would be forthcoming. The Dow Jones closed 249 points higher (or +0.8%), the S&P 500 rose 32 points (or +0.9%) and the Nasdaq finished 87 points firmer (or +0.7%).

Interest Rates: The US yield curve steepened on Friday. The US 10-year yield shot up 6 basis points whilst the 2-year yield finished unchanged. The longer-term yield rose on hopes the disappointing jobs data would hasten a stimulus deal, underpinning longer-term growth.

Foreign Exchange: The US dollar firmed in New York trade, after weakening in European trade. It left the US dollar relatively unchanged over a 24-hour period. The EUR/USD struck a three-year high of 1.2178 in the European session before succumbing to selling to fall back towards 1.2110. The GBP/USD exchange rate also made a three-year high, of 1.3539, before falling on investor scepticism a Brexit deal would be reached. The AUD/USD

seemed to lack direction, trading in a volatile fashion in a small range of 0.410-0.7444. We continue to anticipate a firmer Australian dollar against the greenback in coming months.

Commodities: West Texas Intermediate oil futures rose to US\$46.26 a barrel, the highest since early March. Copper and iron ore also posted strong gains, rising to an eight-year and seven-year high, respectively. The price of gold fell.

COVID-19: Vaccinations could commence as early as this Friday in the US. All Americans who want to be vaccinated will be able to receive a vaccination by the second quarter of next year. Across the US, there were more than 200,000 new infections for the fourth consecutive day on Saturday. In the UK, vaccinations could start as early as tomorrow.

Australia: Retail sales rose 1.4% in October to be up 7.1% on a year earlier. The solid rise in October was aided and abetted by shoppers in Victoria where spending rose 5.1% as physical shops reopened.

The patterns of spending reflect the gradual easing of restrictions across the country. Spending on food was solid from May to July as we spent time at home cooking. The joy of cooking appears to have faded from August onwards as spending on food declined. That said, spending on food is still up 12.0% on a year earlier. Maybe now is the time to purchase a new set of joggers! Spending on food fell

0.1% in October following a 1.5% decline in September.

All States, bar Victoria, have seen retail spending rise over the twelve months to October.

We remain cautiously optimistic about the outlook for retail sales. The September quarter national accounts put the household savings ratio at 18.9%, well up on the 5.3% reported in the December quarter 2019. But how will these funds be spent?

Eurozone: Factory orders in Germany, Europe's biggest economy, rose for the sixth consecutive month in October. Orders were up 2.9% compared with the previous month. It followed gains of 4.9% in August and 1.1% in September. Demand for investment goods led the gains in October, while orders for consumer goods were weaker.

New Zealand: Construction work rose 34.6% in Q2 after a fall of 22.6% in Q1, returning construction activity to pre-COVID-19 levels. Construction was firm across both residential and non-residential work.

United Kingdom: The construction purchasing managers' index (PMI) rose to 54.7 in November, from 53.1 in October. The PMI is above the critical level of 50.0, suggesting activity should continue to expand in construction in the next few months.

The negotiations between the UK government and European Union (EU) officials resumed in Brussels. The aim is to finalise a deal before this Monday evening (European time). Prime Minister Johnson and European Commission President Von Der Leyen are due to hold a phone call this evening. By this time, both sides wish to settle on a deal or determine that a deal is beyond reach. The UK is due to leave the European single market and customs union on December 31 with or without an agreement. The EU has said that a summit of its 27 leaders that begins on Thursday is now an effective deadline.

United States: The US economy added a meagre 245,00 jobs in November and the unemployment rate fell 0.2 percentage points to 6.7%, as the labour market lost momentum in the face of the latest surges in COVID-19 cases.

The consensus among economists showed that economists had expected another month of slower job creation in November, but the drop was larger than forecast.

The decline in the unemployment would normally be encouraging except that the decline was driven by 400k people leaving the labour force. The labour

force participation rate fell from 61.7% to 61.5%.

The trade deficit expanded to \$63.1 billion in October, from a revised \$62.1 billion in September. Higher imports a decline in service-related exports drive the widening in the trade gap.

Republicans sounded a bit more optimistic about the prospect of a stimulus bill on Friday. Senator Bill Cassidy told the media that President Trump and Senate Majority Leader Mitch McConnell will be "on board" with a \$908 billion stimulus package.

Today's key data and events:

AU AiG Perf of Services Nov prev 51.4 (8:30am)

AU RBA Governor Lowe Speech (9am)

AU ANZ Job Ads Nov prev 9.4% (11:30am)

CH Exports Nov y/y exp 12.0% prev 11.4%

CH Imports Nov y/y exp 7.0% prev 4.7%

CH Trade Balance Nov exp US\$53.75bn prev US\$58.44bn
(time unconfirmed)

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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