Morning Report

Monday, 09 November 2020

Equities (close & % change)		
S&P/ASX 200	6,190	0.8%
US Dow Jones	28,323	-0.2%
Japan Nikkei	24,325	0.9%
China Shanghai	3,471	-0.2%
German DAX	12,480	-0.7%
UK FTSE100	5,910	0.1%
Commodities (close & change)*		
CRB Index	147.7	-1.5
Gold	1,951.35	1.69
Copper	6,936.25	92.00
Oil (WTI)	37.14	-1.65
Coal (thermal)	62.35	-0.05
Coal (coking)	119.00	-0.07
Iron Ore	114.17	1.04

Sydney Futures Exchange (close & change)				
	Last		Overnight Chg	
10 yr bond	99.22		-0.03	
3 yr bond	99.84		0.00	
3 mth bill rate	99.99		0.00	
SPI 200	6,202.0		15	
FX Last 24 hrs	Open	High	Low	Current
TWI	60.4	-	-	60.9
AUD/USD	0.7275	0.7289	0.7239	0.7274
AUD/JPY	75.32	75.45	74.90	75.02
AUD/GBP	0.5539	0.5544	0.5517	0.5525
AUD/NZD	1.0750	1.0767	1.0695	1.0717
AUD/EUR	0.6152	0.6161	0.6107	0.6114
AUD/CNH	4.8075	4.8164	4.7811	4.7951
USD Index	92.6	92.8	92.2	92.2

Interest rates (close & change)		
Australia		
90 day BBSW	0.02	0.00
2 year bond	0.10	0.00
3 year bond	0.10	0.00
3 year swap	0.07	0.00
10 year bond	0.75	0.01
United States		
3-month T Bill	0.09	-0.01
2 year bond	0.15	0.01
10 year bond	0.82	0.06
Other (10 year yields)		
Germany	-0.62	0.02
Japan	0.02	0.00
UK	0.27	0.04

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 equities stalled on Friday ahead of a result for the US election. US jobs data beat market expectations with the unemployment rate dropping sharply. Locally, US-China trade tensions heated up over the weekend.

Share Markets: US share markets ended mixed on Friday. The Dow Jones lost 67 points (or -0.2%) and the S&P 500 finished 1 point lower. Meanwhile, the Nasdaq closed 4 points higher.

Despite the mixed performance on Friday, the major share market bellwether, the S&P 500 index, capped its best week since April 10. The S&P 500 ended the week 239 points (or 7.3%) higher.

The ASX200 share market index added 51 points (or +0.8%) on Friday and was 4.4% firmer for the week, which is the best weekly finish in a month.

Interest Rates: US government bond yields lifted on Friday and the US yield curve steepened. The US 2-year bond yield rose 1 basis point while the 10-year bond yield jumped 6 basis points.

Foreign Exchange: The US dollar weakened against a basket of major currencies on Friday. The Australian dollar strengthened against the US dollar in Friday night trading. It rose from a low of 0.7239 to a high of 0.7289, which matches the high for the week. Indeed, the AUD/USD moved sharply higher over last week, lifting from a low of 0.6991 on November 2 to a 6-week high of 0.7289, despite the additional and substantial stimulus announced by the Reserve Bank (RBA) on November 3. However, the AUD/USD remains within a trading range it has been in since the middle of July.

Commodities: Major commodities were mixed on Friday. The gold price lifted but oil lost ground.

COVID-19: The NSW government yesterday announced it will retain one of its pandemic support measures in 2021 by continuing to provide 15 hours of free preschool per week.

Global infections of Covid-19 breached the 50-million mark over the weekend.

Australia: Trade tensions between China and Australia escalated over the weekend after an editorial was published in China's state-run China Daily. The editorial warned the Australian government that it would "pay tremendously for its misjudgement" if it continued to back the US government's efforts to contain China. Australia's export sectors are bracing for potential trade bans. There is speculation that from today, Australian sugar, lobster, copper, copper concentrates and some timber will be banned from China. It follows unconfirmed reports that Chinese traders were "reportedly" instructed by Communist Party officials on Friday to halt these imports.

In terms of data published on Friday, the AiG performance of services index jumped 15.2 points to 51.4 in October. It is the highest reading since November of last year and is also the first reading above 50.0 since late last year. A reading over 50.0 suggests an expansion of activity is likely in the months ahead.

The RBA published its quarterly Statement on Monetary Policy (SoMP) on Friday. It follows in the wake of a package of stimulus measures delivered by the RBA on Melbourne Cup day. The SoMP provided insights on the RBA's thoughts around the outlook, including an updated set of forecasts.

The RBA's near-term baseline scenario is now more optimistic. In the August Statement, GDP was expected to decline 6% in the year to December 2020. The decline is now expected to be 4%.

Beyond June 2021, the forecasts for GDP growth have been held steady. Growth of 5% is the baseline forecast for the year to December 2021 and 4% growth in the year to December 2022. These are more optimistic than our own forecasts.

The RBA is not expecting the economy to reach pre-pandemic levels of activity until the end of 2021. Slower population growth was mentioned as a factor holding back the economy.

The revisions to the growth forecasts were accompanied by changes to the unemployment forecasts. Under the previous baseline scenario in August, the unemployment rate had been anticipated to peak at around 10%. The peak has been pared back to a little under 8% with the unemployment rate expected to then decline and end 2022 at 6%. Again, this is more optimistic than our forecasts.

The RBA's outlook for underlying inflation in the baseline scenario is little changed from its previous forecasts. The annual rate of inflation is expected to remain very subdued over the next few years. This view reflects a high level of spare capacity expected to stay in the economy.

The forecasts contained in the SoMP are consistent with low rates for longer and with an RBA that is unlikely to raise the cash rate for at least three years.

China: The trade surplus widened in October to US$58.4 billion, from US$37.0 billion, amid a surge in exports and a dip in imports. Exports unexpectedly spiked 11.4% in the year to October after annual growth of 9.9% in September. Imports grew by 4.7% over the year to October, after a record annual import bill in September.

The trade data shows encouraging signs for China's ongoing economic recovery. However, the rising second waves of infections across Europe and the US threaten to slow the export-led trade story in China.

Euro zone: German industrial production rose 1.6% in September, partly driven by a boost in autos output after an unusual drop in August. On a year ago, industrial production is still significantly lower, although the rate of contraction has improved. In the year to September, industrial production contracted by 7.3% compared with the annual contraction of 8.7% in August.

United States: Joe Biden became President-elect of the United States and Kamala Harris is also set to become the highest-ranking woman in US history. In his victory speech, Biden called on Americans to put aside divisiveness and promised swift action against the coronavirus. Joe Biden's jog on stage to his victory speech has earned him the moniker JOG Biden.

Donald Trump and his team have vowed to fight the results in court. This has raised some fears that Trump will refuse to concede and seek to undermine the transfer of power.

On the data front, the non-farm payrolls report was better than consensus expected. Non-farm payrolls grew by 580k in October compared with a gain of 500k expected by consensus. The biggest job gains occurred in the hardest-hit sectors from the pandemic. Leisure & hospitality recorded strong job gains in October.

The unemployment rate also fell sharply. It declined from 7.9% in September to a 7-month low of 6.9% in October. The underemployment rate also fell, to 12.1% from 12.8% a month ago.

The jobs report comes as the US continues to face a challenging rise in infections of Covid-19.

Today's key data and events:

EZ Sentix Investor Confid. Nov exp -15 prev -8.3 (8:30pm)

US Federal Reserves Mester Panel Discussion (5:30am)

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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