

Morning Report

Monday, 10 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,004.8	-0.6%	Last		Overnight Chg			Australia		
US Dow Jones	27,433.5	0.2%	10 yr bond	99.13	-0.02			90 day BBSW	0.10	0.00
Japan Nikkei	22,329.9	-0.4%	3 yr bond	99.71	0.00			2 year bond	0.26	-0.01
China Shanghai	3,515.6	-1.0%	3 mth bill rate	99.90	0.00			3 year bond	0.26	-0.01
German DAX	12,674.9	0.7%	SPI 200	6,014.0	42			3 year swap	0.19	-0.01
UK FTSE100	6,032.2	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.83	-0.03
Commodities (close & change)*			TWI	61.7	-	-	61.9	United States		
CRB Index	146.9	-1.7	AUD/USD	0.7193	0.7243	0.7145	0.7158	3-month T Bill	0.09	0.00
Gold	2,019.2	42.2	AUD/JPY	75.96	76.44	75.73	75.82	2 year bond	0.13	0.01
Copper	6,310.5	-173.0	AUD/GBP	0.5484	0.5513	0.5477	0.5482	10 year bond	0.56	0.03
Oil (WTI)	41.2	-0.7	AUD/NZD	1.0814	1.0855	1.0799	1.0847	Other (10 year yields)		
Coal (thermal)	54.6	1.0	AUD/EUR	0.6062	0.6103	0.6068	0.6073	Germany	-0.51	0.02
Coal (coking)	112.5	-0.4	AUD/CNH	4.9948	5.0308	4.9820	4.9889	Japan	0.01	-0.01
Iron Ore	113.4	-1.8	USD Index	92.8	93.6	92.8	93.4	UK	0.14	0.03

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 8:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: US-China tensions were counterbalanced by better-than-expected non-farm payrolls. US stimulus talks stalled, but President Trump signed an executive order extending enhanced unemployment benefits.

Share Markets: A late bull-run left the Dow Jones and S&P 500 in positive territory on Friday (0.2% and 0.1%, respectively). Tech stocks were laggards, with US sanctions placed on WeChat and TikTok dragging down the sector. The tech-heavy NASDAQ closed lower by 0.9%.

In Australia, the ASX 200 closed 0.6% lower on Friday but was up 1.3% over last week.

Interest Rates: US government bond yields increased on Friday as investors mulled the potential for further fiscal stimulus. The US 10-year yield rose 3 basis points to 0.56% while the 2-year rose 1 basis point to 0.13%.

Australian bond yields fell on Friday following the release of the Reserve Bank (RBA)'s Statement on Monetary Policy. The 10-year bond yield fell 3 basis points to 0.83%. The 3-year bond yield is at 0.26%, within the RBA's target range of "around 0.25%".

Foreign Exchange: The US dollar gained against most of its peers after jobs data beat expectations. The US dollar index is at 93.4 this morning, consistently trading higher since Friday morning.

The Australian dollar is currently trading at US\$0.7158 this morning after trading above 72 US cents at the start of Friday's session.

Commodities: Oil prices retreated on Friday but ended the week higher. WTI crude oil futures fell 1.7% on Friday to US\$41.2 per barrel, leaving them 2.4% higher over last week. The COVID-19 pandemic remains the major driver of oil prices through its significant implications for demand. Iraq pledged to cut its production by a further 400,000 barrels per day in August and September to satisfy its OPEC agreements. Iraq has produced above its agreed quota over the past three months.

COVID-19: Yesterday, the Department of Health said that Australia had recorded 404 new COVID-19 cases. Victoria accounted for 394 new cases with the remaining 10 recorded in NSW.

The World Health Organisation said there were 273,552 new cases recorded yesterday and 6,207 new deaths worldwide. The US passed 5 million total infections over the weekend while Brazil's total death toll surpassed 100,000.

Australia: The RBA's Statement on Monetary Policy on Friday presented a sober outlook for the Australian economy. It highlighted the extreme uncertainty through a range of scenarios that could be possible, depending on the containment of the coronavirus outbreak in Australia and around the

world. In its baseline scenario, the RBA is estimating a smaller initial contraction than previously, but that a recovery will be more drawn out. The economy is expected to contract about 6% over 2020, before growing by around 5% in 2021. The unemployment rate is expected to peak at around 10% by the end of this year.

RBA Assistant Governor Ellis echoed these sentiments in a speech on Friday. Ellis added that the RBA's forecasts assume that a vaccine will not be fully distributed next year and that there is a need to get a hold of the virus in order for a strong economy, it was not a trade-off. She expressed concern about the virus in the US and was worried that it would weigh on growth in the US for some time yet.

The AiG performance of services index rose 12.5 points to 44.0 in July, the best result since February as a range of services resume operations. However, the index remains below 50 signalling contraction. The survey was conducted before Stage 4 restrictions were announced for Melbourne and suggests weaker conditions ahead.

China: Chinese exports strengthened to a 7.2% annual pace in July, up from 0.5% previously. It was well above the consensus estimate for a 0.6% decline. It was the strongest growth this year and provides a positive sign that global demand is picking up.

Imports weakened 1.4% in the year to July, but a recovering Chinese economy and fiscal stimulus would suggest that import growth will pick up again.

Europe: Italy approved a further stimulus package, including new tax breaks and enhanced furlough benefits. The government requested €28 billion in additional funds from the European Commission for unemployment support.

United States: Employment recovered in July, but growth slowed considerably compared with June. Non-farm payrolls rose 1.76 million last month after recording an increase of 4.89 million in June.

July's result was ahead of consensus expectations of a 1.5 million increase but highlights the bumpy road ahead for the US labour market. So far, 9.3 million jobs have been recovered of the 22 million lost since the onset of the COVID-19 pandemic.

The unemployment rate fell to 10.2% in July from 11.1% in June. Average hourly earnings posted a surprise 0.2% increase following a 1.2% decline in June. The participation rate edged lower from June,

falling 0.1 percentage point to 61.4%.

Tensions with China were stoked further after the US placed sanctions on 11 Hong Kong and mainland China officials, including Hong Kong chief executive Carrie Lam. The sanctions came on top of executive orders against Chinese tech apps TikTok and WeChat.

Meanwhile, talks between the upper and lower houses regarding COVID-19 support stalled. President Trump signed four executive orders related to the economic relief package including: expanded unemployment benefits, temporary payroll tax deferral, eviction protection and student loan relief. The centrepiece is the expanded unemployment benefit, which will provide \$400 per week in unemployment benefits, of which the States are to provide \$100. Republicans and Democrats said they hoped talks could resume soon, however, neither gave a firm date for talks to continue.

Today's key data and events:

NZ ANZ Business Confidence Aug prev -31.8 (11.00am)

AU ABS Household Impacts of COVID-19 Survey May (11:30am)

CH PPI Jul y/y exp -2.5% prev -3.0% (11.30am)

CH CPI Jul y/y exp 2.6% prev 2.5% (11.30am)

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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