

Morning Report

Friday, 11 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,683	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	29,999	-0.2%	10 yr bond	99.02		0.00	90 day BBSW	0.02	0.00	
Japan Nikkei	26,756	-0.2%	3 yr bond	99.82		-0.01	2 year bond	0.09	-0.01	
China Shanghai	3,536	0.0%	3 mth bill rate	99.97		-0.01	3 year bond	0.12	-0.02	
German DAX	13,296	-0.3%	SPI 200	6,650.0		-36	3 year swap	0.15	0.00	
UK FTSE100	6,600	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.99	-0.04
Commodities (close & change)*			TWI	61.5	-	-	61.9	United States		
CRB Index	161.4	2.5	AUD/USD	0.7443	0.7538	0.7427	0.7537	3-month T Bill	0.07	0.00
Gold	1,835.55	-4.0	AUD/JPY	77.32	78.57	77.41	78.56	2 year bond	0.14	-0.01
Copper	7,861.75	154.3	AUD/GBP	0.5534	0.5675	0.5542	0.5671	10 year bond	0.90	-0.03
Oil (WTI)	46.88	1.4	AUD/NZD	1.0517	1.0642	1.0578	1.0623	Other (10 year yields)		
Coal (thermal)	79.60	2.2	AUD/EUR	0.6128	0.6215	0.6148	0.6209	Germany	-0.60	0.00
Coal (coking)	101.29	1.3	AUD/CNH	4.8636	4.9290	4.8514	4.9274	Japan	0.02	-0.01
Iron Ore	154.61	8.0	USD Index	90.7	91.2	90.7	90.8	UK	0.20	-0.06

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: Discussions around a US stimulus deal continued. The European Central Bank (ECB) delivered more stimulus and Brexit talks between the European Union (EU) and UK faltered.

The Australian dollar struck a 2½-year high. It is set to stretch higher towards US 77 cents in the near term and reach US 80 cents in coming months.

Share Markets: US share markets fell, as US stimulus negotiations continued with few signs of a deal being inked. The Dow Jones lost 70 points (or -0.2%) and the S&P 500 index ended 1 point lower.

Interest Rates: Global bond yields weakened overnight. In the US, the 2-year bond yield fell 1 basis point and the 10-year yield fell 3 basis points.

Yesterday, Australia sold a bill at a negative yield for the first time in its history, accepting a bid for its 26 March 2021 Treasury note at a yield of negative 0.01%. The Australian Office of Financial Management had tendered the note to raise \$1.5 billion.

Foreign Exchange: The AUD continued to climb higher overnight, reaching a 2½-year high of 0.7538.

On November 30 (in this report) we flagged that the AUD/USD would try to stretch to 0.7600-0.7700 on a break above the key resistance level of 0.7415. The AUD breached this level on December 3.

The AUD/USD remains on target to hit 77 US cents

in the short term. The move of the USD index below its very important long-term technical level of 91.0 on December 3 represented a key shift in the outlook for currencies.

Fundamentals, including Australia's growth outlook and successful suppression of the virus relative other major economies, are also underpinning demand for the AUD.

We expect the AUD/USD to reach 0.8000 early next year with both fundamentals and technical suggesting the US 80 cent level is well within the AUD's reach in coming months.

In other currencies, the EUR/USD rose from an overnight low of 1.2059 to a high of 1.2159, boosted by news of fresh stimulus from the ECB. The GBP/USD, however, encountered fresh selling, as the prospect of a "no-deal" exit on trade from the EU grew. The GBP fell close to one US cent to an overnight low of 1.3246.

Commodities: Optimism surround the rollout of COVID-19 vaccines has helped to lift oil prices. West Texas Intermediate crude rose US\$1.40 to US\$46.88 a barrel, its highest close since early March.

COVID-19: The US Food and Drug Administration (FDA) is holding a panel meeting to discuss Pfizer and BioNTech's vaccine. Distribution in the US may begin within 24 hours if it is approved. A two-dose regimen, given 21 days apart, demonstrated vaccine

efficacy of 95%, according to final results from the vaccine's Phase 3 trial. Partial protection can begin as soon as 12 days after the first dose.

Australia: Yesterday, China hit Australian wine makers with more tariffs than the original 107-212% it hit producers with last month. China's Commerce Ministry said it would impose temporary anti-subsidy tariffs on imported Australian wines of an additional 6.3-6.4%.

Eurozone: The ECB has launched a fresh burst of stimulus to help the eurozone economy recover from the pandemic. The ECB announced it would be adding €500 billion to its pandemic emergency purchase programme (PEPP), taking it to €1.85 trillion. The program will also be extended by nine months until at least March 2022. ECB President Christine Lagarde said that if the economy recovered quickly from the pandemic, the full amount of the PEPP need not be used in full, but it could be expanded further if required.

The ECB also extended until June 2022 its offer to finance banks at deeply negative rates as low as minus 1%.

The ECB forecast an economic contraction of 2.2% in the fourth quarter. The downturn is expected to continue into early next year with the growth forecast for 2021 cut from 5.0% to 3.9%. the growth forecast for 2020 was also revised, from -8.0% to -7.3%. Inflation forecasts were also lowered.

Lagarde remarked that while "risks remain tilted to the downside", they had "become less pronounced" since vaccines started to be rolled out. Lagarde added that she has good reasons to believe that by the end of 2021 there will be sufficient herd immunity so that the economy will begin to function under "normal circumstances".

United Kingdom: There was no breakthrough on a Brexit deal. UK's Prime Minister warned that the UK should prepare to leave the EU without a deal. Negotiators will continue working until Sunday, when leaders are due to decide on whether to call time on negotiations.

Industrial production continued to recover for the sixth straight month, rising by 1.3% in October. However, the annual pace is still contracting. On a year ago, industrial production was 5.5% weaker.

United States: The US House of Representatives passed a continuing resolution on spending to prevent a government shutdown that would otherwise have occurred on December 11. The resolution extends government payments for a

further week, until December 18.

A stimulus deal continues to be negotiated over with few signs that a deal is about to be sealed. House Speaker Nancy Pelosi and Treasury Secretary. There were no signs of a solution over the business liability shield Republicans are pushing and Democrats oppose. Pelosi continues to favour the \$908 billion bi-partisan package while Senate Majority Leader Mitch McConnell backs his \$916 billion proposal. Talks are continuing. There is about a week left before Congress breaks for the holidays.

Widening business shutdowns to curb the pandemic are spurring fresh job losses. Initial jobless claims jumped to 853,000 last week, up from 716,000 in the previous week.

Inflation remains muted. Consumer prices rose by 0.2% in November. The pace of inflation over the past year, however, was unchanged at just 1.2%. Before the pandemic began in March, consumer price inflation was running at a much higher 2.3% rate. A separate measure of consumer prices that strips out food and energy, known as the core inflation measure, also rose 0.2% last month. The core rate has risen 1.6% in the past twelve months.

Today's key data and events:

NZ BusinessNZ Mfg PMI Nov prev 51.7 (8:30am)

US PPI Final Nov y/y exp 0.1% prev 0.3% (12:30am)

US UoM Cons. Sentiment Dec Prel exp 76.0 prev 76.9 (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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