

Wednesday, 12 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,138.7	0.5%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	27,686.9	-0.4%	10 yr bond	99.07				90 day BBSW	0.10	0.00
Japan Nikkei	22,750.2	1.9%	3 yr bond	99.70				2 year bond	0.26	0.00
China Shanghai	3,501.3	-1.2%	3 mth bill rate	99.89				3 year bond	0.26	0.00
German DAX	12,946.9	2.0%	SPI 200	6,103.0			9	3 year swap	0.21	0.01
UK FTSE100	6,154.3	1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	0.00
<b>Commodities (close &amp; change)*</b>			TWI		61.9	-	-	61.7	<b>United States</b>	
CRB Index	146.9	-0.7	AUD/USD	0.7148	0.7190	0.7135	0.7142	3-month T Bill	0.10	0.00
Gold	2,019.2	42.2	AUD/JPY	75.73	76.34	75.74	76.09	2 year bond	0.15	0.02
Copper	6,384.5	-12.8	AUD/GBP	0.5469	0.5490	0.5462	0.5472	10 year bond	0.64	0.07
Oil (WTI)	41.6	-0.3	AUD/NZD	1.0845	1.0897	1.0834	1.0863	<b>Other (10 year yields)</b>		
Coal (thermal)	52.8	-1.5	AUD/EUR	0.6089	0.6115	0.6080	0.6083	Germany	-0.48	0.05
Coal (coking)	113.0	0.5	AUD/CNH	4.9752	4.9900	4.9547	4.9585	Japan	0.03	0.02
Iron Ore	115.2	1.8	USD Index	93.6	93.7	93.2	93.7	UK	0.20	0.07

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:** Key developments in financial markets included a major fall in the gold price and a bounce in bond yields. A stalemate is continuing in the US with regards to fiscal stimulus, which likely contributed to a late sell-off in US equities. New Zealand will suddenly enter lockdown today for three days.

**Share Markets:** Broadly upbeat sentiment in Asia and Europe yesterday, gave way later in the US session. Concerns over the stalemate in fiscal stimulus talks likely weighed on share markets. Additionally, with the S&P500 nearing its all-time high, investors are possibly a bit more sensitive to negative headlines. Tech stocks led the sell-off – the Nasdaq fell 1.7%. Meanwhile, the Dow fell 0.4% and the S&P500 fell 0.8%.

**Interest Rates:** Yields on US treasuries jumped, with the US 10-year yield lifting 7 basis points to 0.64%. A stronger-than-expected lift in producer prices may have helped to drive yields higher. The bounce might also reflect large upcoming supply ahead of a record 10-year note auction or simply a recalibration after hitting record lows last week.

**Foreign Exchange:** The US dollar index dipped before lifting to be little changed. Euro conversely bounced before retreating. The Australian dollar similarly made a round trip to a high of 71.9 US cents before settling at 71.5 US cents this morning.

**Commodities:** Gold prices plunged to below \$2,000

an ounce, supported by a fall in risk appetite and suggesting the run up to record highs has been a little fast.

Oil prices fell in step with the late drop in risk appetite.

**COVID-19:** The Australian Department of Health recorded 353 new cases yesterday with 331 cases in Victoria and 22 cases in NSW.

In New Zealand, after four cases were found of unknown source, Stage 3 restrictions will be imposed for 3 days in Auckland and Stage 2 for the rest of New Zealand starting from midday today (10am AEST).

The World Health Organisation (WHO) reported 216,033 new cases yesterday, with infections rising in India and Germany.

Russian President Vladimir Putin has said its first coronavirus vaccine has been registered, although human trials continue to be ongoing and testing has only been ongoing for less than two months.

**Australia:** Business conditions improved while confidence fell in July, as COVID-19 developments kept firms on edge, according to the latest NAB business survey. The business conditions index rose to 0 in July from -8 in June. The index is now at its pre-pandemic level when the main concerns for businesses were the summer bushfires and lacklustre consumer demand.

Confidence partially reversed its June improvement, falling to -14 from 1 previously. The survey period preceded the stage 4 lockdown imposed in metropolitan Melbourne but captures the rapid increase in cases in Victoria and the earlier containment measures imposed in metropolitan Melbourne and the Mitchell Shire.

Unsurprisingly, confidence was most affected in Victoria and NSW, where cases of COVID-19 have been more prevalent. There was a 22-point decline in confidence in Victoria to -29. All States recorded negative confidence in July except for WA and Tasmania.

July's survey shows that operating conditions outside of Victoria appear to have improved. However, businesses around the country are keeping a close eye on developments, and the persistent trickle of cases in NSW is further negatively impacting confidence.

Total payroll jobs fell -0.1% in the four weeks to July 25. This is an improvement on the -1.0% fall in the four weeks to July 11 with the last two weeks moving from a negative in week ended July 18 (-0.5%) to a positive for week ended July 25 (+0.4%).

This is a more positive update and provides us confidence that the labour market will continue to stabilise in July (to be published this Thursday).

**Europe:** Confidence about the economy improved in the euro zone according to the ZEW survey in August. Expectations improved for Germany and the wider euro zone. The expectations index for Germany rose from 59.3 to 71.5, the highest since 2004. For the wider zone, expectations lifted from 59.6 to 64.0. While current conditions remain downbeat, it suggests greater confidence in a recovery.

**United States:** Producer prices lifted more than the consensus estimate of 0.3%, rising 0.6% in July. On an annual basis, the rate of contraction eased from -0.8% to -0.4%. Core prices, excluding food and energy, was also stronger than expected, lifting 0.5% for an annual gain of 0.3%. The lift in prices suggests that the period of deflation is unlikely to be long lasting. However, with demand continuing to take a hit from COVID-19, inflation is likely to remain low.

The NFIB Small Business Optimism index fell from 100.6 in June to 98.8 in July, partially reversing the improvement on re-opening. Concerns reflected the spike in COVID-19 cases around the country, and as re-openings paused or reversed in some States.

A stalemate is continuing over talks between

Republicans and Democrats over a coronavirus relief package. Republican Senate Majority Leader Mitch McConnell said that the secretary of the Treasury and chief of staff had not spoken to Democratic leader Pelosi.

In other news in politics, Democratic Presidential Candidate Joe Biden has announced Kamala Harris will be his choice for vice president.

#### Today's key data and events:

AU WBC-MI Consumer Sentiment Aug prev 87.9 (10:30am)

AU Wage Cost Index Q2 exp 0.3% prev 0.5% (11:30am)

NZ RBNZ Official Cash Rate exp 0.25% prev 0.25% (12pm)

UK Industrial Production Jun exp 9.0% prev 6.0% (4pm)

UK GDP Prel Q2 exp -20.7% prev -2.2% (4pm)

EZ Industrial Production Jun exp 10.0% prev 12.4% (7pm)

US CPI Jul exp 0.3% prev 0.6% (10:30pm)

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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