bankSA

Morning Report

Thursday, 13 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,132.0	-0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	27,976.8	1.0%	10 yr bond	99.05		-0.02		90 day BBSW	0.10	0.00
Japan Nikkei	22,844.0	0.4%	3 yr bond	99.70		0.00		2 year bond	0.26	0.00
China Shanghai	3,479.2	-0.6%	3 mth bill rate	99.90		0.00		3 year bond	0.26	-0.01
German DAX	13,058.6	0.9%	SPI 200	6,130.0		42		3 year swap	0.21	0.00
UK FTSE100	6,280.1	2.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	0.05
Commodities (close & change)*			TWI	61.7	-	-	61.3	**United States**		
CRB Index	148.4	1.5	AUD/USD	0.7142	0.7176	0.7109	0.7160	3-month T Bill	0.09	-0.01
Gold	2,019.2	42.2	AUD/JPY	76.09	76.72	75.86	76.52	2 year bond	0.16	0.01
Copper	6,435.0	50.5	AUD/GBP	0.5472	0.5502	0.5457	0.5493	10 year bond	0.67	0.03
Oil (WTI)	42.6	1.0	AUD/NZD	1.0863	1.0922	1.0850	1.0887	**Other (10 year yields)**		
Coal (thermal)	52.0	-0.8	AUD/EUR	0.6083	0.6090	0.6054	0.6076	Germany	-0.45	0.03
Coal (coking)	113.0	0.0	AUD/CNH	4.9585	4.9746	4.9422	4.9646	Japan	0.05	0.01
Iron Ore	116.3	1.1	USD Index	93.7	93.9	93.3	93.4	UK	0.24	0.04

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 share markets rallied overnight with one of the major bourses recording a new intra-day high. Global bond yields also lifted, as the appetite for risk improved among investors.

Share Markets: US share markets appear to be having the "V-shaped" recovery that the economy is not, suggesting a disconnect between equities and the economic backdrop. It suggests that the share market is vulnerable to a sell off. Overnight, the S&P 500 index closed 47 points higher (or +1.4%) to 3,380, which is within a whisker of its peak struck in February. During intraday trade, the S%P 500 made a new record high, but could not maintain these gains into the close. Meanwhile, the Dow Jones rose 290 points (or +1.1%).

Yesterday the local share market, the ASX 200 index, fell 7 points (or -0.1%). Unlike its US counterparts, the Australian share market remains a long way from its peak. At yesterday's close, the ASX 200 index was 14.4% below its record high registered in February of this year, although it has improved substantially from its low in March. The ASX 200 has lifted 34.9% from its March lows.

Interest Rates: US bond yields lifted overnight, as risk appetites improved. The US 2-year bond yield rose 1 basis point to 0.16%. The US 10-year bond yield rose from an overnight low of 0.65% to an overnight and one-month high of 0.69% before slipping to close 3 basis points higher at 0.67%.

Foreign Exchange: The US dollar index sold off overnight, helping push the AUD/USD exchange rate higher. The AUD/USD pair lifted from an overnight low of 0.7109 to an overnight high of 0.7190. The AUD/USD remains within the trading range it has been in for around 3 weeks of 0.7064-0.7243. We still favour the AUD pushing higher to reach 0.7400 within the next few months.

Commodities: Oil prices rose after data showed US stockpiles fell over 4 million barrels last week and refiners boosted processing rates. On the supply side, OPEC sees shale-oil production benefiting from the price rebound. Instead of dropping by 7% this quarter as it projected a month ago, the cartel now expects American output to edge slightly higher as producers begin to restart.

COVID-19: Victoria recorded 21 deaths yesterday, a new high in the state's daily death toll. Victoria also recorded 428 new infections yesterday and NSW recorded 18 new infections. NSW residents returning from Victoria will have a one-month grace period on paying for hotel quarantine.

NZ officials are investigating the possibility that its first COVID-19 cases in more than three months were infected by freight carrying imports.

Australia: The lockdown measures across the nation had a substantial impact on the labour market and incomes. Wages growth slowed significantly in the June quarter; growth was just 0.2%. It was the slowest pace in the history of the series (to 1997). It highlights the significant degree of slack in the labour market. On an annual basis, wages growth slowed from 2.2% in the March quarter to 1.8% in the June quarter, the weakest annual pace of growth since the series began.

It would not be surprising if further falls in wages occurred in some parts of the economy over the September quarter, as lockdown measures once again took effect in Victoria. Further weakness in wages is expected for some time, especially as spare capacity in the labour market is set to continue.

Consumer confidence fell 9.5% to 79.5 in August, approaching the very low level of confidence recorded in April during the nationwide lockdown. The sharp drop in confidence was led by NSW and Victoria.

Europe: Industrial production in the eurozone economy rose 9.1% in June, after a spike of 12.3% in May, capturing the reopening of large parts of the economy.

New Zealand: The Reserve Bank of New Zealand (RBNZ) expanded its large-scale asset purchase (LSAP) programme up to $100 billion, delivering on further quantitative easing. It kept the OCR steady at 0.25%. The RBNZ also said that other monetary policy tools “must remain in active preparation”. These options included a negative OCR and purchases of foreign assets (i.e. akin to FX intervention). On the outlook, the RBNZ was more positive and noted output and employment was recovering sooner than expected in its May Monetary Policy Statement. However, the RBNZ highlighted the risks and high uncertainty surrounding the outlook, as reflected in the restrictions that came into force yesterday.

United Kingdom: GDP shrank 20.4% in the June quarter, equivalent to an annualised rate of 59.8%. The contraction in GDP in the UK was significantly larger than in the US and any other major European economy (including Germany, Italy, France and Spain). The outsized hit in Q2 compared to its peers reflects the timing and duration of the UK’s nationwide lockdown. Output in the services sector dropped 19.9% in the June quarter, accounting for nearly 75% of the fall in GDP. Pent-up demand is expected to contribute to a recovery in the current third quarter.

United States: Consumer prices rose by more than expected by consensus in July. The headline CPI rose by 0.6% in June versus 0.3% expected, which was the biggest jump since August 2012. A sharp lift in gasoline prices accounted for around half of the rise. In the twelve months through July, the CPI rose 1.0% after rising by 0.6% in June.

Core inflation, which excludes food and energy, jumped 0.6% in July and increased by 1.6% in the twelve months to July. This was the largest gain in core inflation since January 1991. In the twelve months through July, the core CPI advanced 1.6% after increasing 1.2% in June.

However, this data is unlikely to mark the start of a worrisome inflation. The jump in prices likely reflects an unwinding of sharp declines experienced when non-essential businesses were shuttered in mid March to show the spread of the virus.

US Federal Reserve speakers overnight suggested a failure to control the pandemic has undermined a nascent recovery. Dallas’s Federal Reserve President Robert Kaplan called on officials to push harder for adherence to protective behaviours and said extending unemployment benefits is "critical" to growth. Boston colleague Eric Rosengren quipped that wearing a mask costs less than fiscal support.

US Treasury Secretary Steven Mnuchin renewed a push for a more limited pandemic relief package of "a little more than $1 trillion". Mnuchin said Democratic demands for spending more could be discussed down the road.

Today’s key data and events:

AU Consumer Inflat. Expectations Aug prev 3.2% (11am)
AU Labour Force Jul (11:30am)
Employment Chg Jul exp 40.0k prev 210.8k
Unemployment Rate exp 7.8% prev 7.4%
Participation Rate exp 64.4% prev 64.0%
EZ CPI Jul final (4.00pm)
US Import Price Index Jul exp 0.6% prev 1.4% (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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