

Morning Report

Monday, 14 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,643	-0.6%			Last	Overnight Chg		Australia		
US Dow Jones	30,046	0.2%	10 yr bond	99.05		0.03	90 day BBSW	0.02	0.00	
Japan Nikkei	26,653	-0.4%	3 yr bond	99.82		0.00	2 year bond	0.09	0.00	
China Shanghai	3,508	-0.8%	3 mth bill rate	99.97		-0.01	3 year bond	0.11	-0.01	
German DAX	13,114	-1.4%	SPI 200	6,630.0		-1	3 year swap	0.15	-0.01	
UK FTSE100	6,547	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.99	0.00
Commodities (close & change)*			TWI	61.9	-	-	62.6	United States		
CRB Index	161.2	-0.1	AUD/USD	0.7537	0.7572	0.7520	0.7557	3-month T Bill	0.06	-0.01
Gold	1,839.85	3.3	AUD/JPY	78.56	78.78	78.19	78.63	2 year bond	0.12	-0.02
Copper	7,755.50	-106.3	AUD/GBP	0.5671	0.5738	0.5642	0.5656	10 year bond	0.90	-0.01
Oil (WTI)	46.57	-0.2	AUD/NZD	1.0623	1.0657	1.0606	1.0641	Other (10 year yields)		
Coal (thermal)	81.50	1.9	AUD/EUR	0.6209	0.6234	0.6195	0.6219	Germany	-0.64	-0.03
Coal (coking)	101.29	0.0	AUD/CNH	4.9274	4.9419	4.9141	4.9404	Japan	0.01	0.00
Iron Ore	157.82	3.2	USD Index	90.8	91.0	90.6	91.0	UK	0.17	-0.03

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: A US stopgap spending measure was passed by Congress to avoid a shutdown, but a stimulus deal has still not been inked. Brexit talks are set to continue beyond the original deadline. The Australian dollar recorded a fresh 2½-year high against the US dollar.

Share Markets: US share markets pared losses after a stopgap spending bill was passed. The Dow Jones closed 47 points higher (or +0.2%) but the S&P 500 index dropped 5 points (or -0.1%). The Nasdaq finished 28 points lower (or -0.2%). US Congress passed a stopgap spending measure to avoid a shutdown but there was little progress made on a stimulus deal.

Interest Rates: Global bond yields moved lower on Friday. The US 2-year bond yield dropped 2 basis points and the US 10-year yield fell 1 basis points. The bond yields of Europe's major economies also fell.

Foreign Exchange: The AUD continued to appreciate against the US dollar, reaching a fresh 2½-year high of 0.7572. The price action (or technical picture) suggests the AUD/USD will continue to move higher. We flagged on November 30 that we expected the AUD/USD to stretch to as high as 0.7700 in the near term. We continue to hold these expectations. We also expect the AUD/USD to reach 0.8000 by early next year.

In other currencies, a notable mover was the pound. The GBP/USD jumped sharply, from a Friday low of 1.315 to a high of 1.3412 in the wake of news that Brexit talks would continue.

Commodities: Oil fell but the price of gold rose.

COVID-19: The head of the US government's vaccine drive believes as many as 80% of the US population could be vaccinated by America's next summer, putting herd immunity within reach.

Germany will enter a hard lockdown from this Wednesday. **Australia:** There was no major economic data released on Friday in Australia.

New Zealand: The business manufacturing purchasing managers' index (PMI) rose 55.3 in November, from 52.4 in October. A result above 50 suggests an expansion in manufacturing activity is likely in the months ahead.

United Kingdom: UK's Prime Minister Boris Johnson and President of the European Commission Ursula von der Leyen agreed to let Brexit talks continue past Sunday's deadline after speaking by phone. In a joint statement, they said that "despite the exhaustion after almost a year of negotiations" they would "go the extra mile."

United States: Americans grew more confident in the economy in late November and early December. The University of Michigan's consumer

sentiment index rose to 81.4 in the two weeks ended December 9, from 76.9 in November. The outcome was well above consensus expectations, which centred on a result of 76.0. There were both rosier expectations for the economic outlook and an improvement in respondents' views on current economic conditions. The buoyant share market and promising news on a COVID-19 vaccine is likely to have contributed to the higher results.

Headline producer prices rose by 0.1% in November. They also lifted by 0.1% when food and energy prices were excluded (i.e. core rate). The annual rates improved; headline producer prices rose to 0.8% and core producer prices increased to 1.4%. The outcomes indicate that wholesale inflation remains muted and is unlikely to stir inflationary pressures further down the inflation pipeline.

A bipartisan group of lawmakers are expected to unveil a pandemic relief bill worth \$908 billion later today. However, according to Senator Joe Manchin it is unknown if this bill will get through Congress. Manchin expressed confidence that some sort of legislation will pass before the holidays but did not address how to resolve Republican demands for a business liability shield.

Today's key data and events:

NZ Performance of Services Index Nov prev 51.8 (8:30am)

UK Rightmove House Prices Dec prev -0.5% (11:01am)

CH New Home Prices Nov prev 0.15% (12:30pm)

EZ Industrial Production Oct exp 2.0% prev -0.4% (9pm)

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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