

Morning Report

Wednesday, 16 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,631	-0.4%			Last	Overnight Chg		Australia		
US Dow Jones	30,202	1.1%	10 yr bond	98.97			-0.02	90 day BBSW	0.02	0.00
Japan Nikkei	26,688	-0.2%	3 yr bond	99.81			0.00	2 year bond	0.09	0.00
China Shanghai	3,530	-0.1%	3 mth bill rate	99.98			0.00	3 year bond	0.11	0.00
German DAX	13,363	1.1%	SPI 200	6,686.0			49	3 year swap	0.16	0.00
UK FTSE100	6,513	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.96	0.00
Commodities (close & change)*			TWI	62.4	-	-	62.2	United States		
CRB Index	163.0	0.8	AUD/USD	0.7536	0.7572	0.7507	0.7560	3-month T Bill	0.07	0.00
Gold	1,854.28	26.9	AUD/JPY	78.40	78.55	78.15	78.34	2 year bond	0.12	0.00
Copper	7,775.00	33.5	AUD/GBP	0.5653	0.5660	0.5609	0.5623	10 year bond	0.91	0.01
Oil (WTI)	47.58	0.6	AUD/NZD	1.0638	1.0669	1.0614	1.0661	Other (10 year yields)		
Coal (thermal)	84.50	0.7	AUD/EUR	0.6202	0.6224	0.6180	0.6217	Germany	-0.61	0.01
Coal (coking)	101.21	0.0	AUD/CNH	4.9207	4.9357	4.9105	4.9268	Japan	0.01	-0.01
Iron Ore	153.29	1.8	USD Index	90.7	90.8	90.4	90.5	UK	0.26	0.04

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: Hopes are rising for a limited US stimulus package following the US Electoral College vote. Another COVID-19 vaccine is close to approval and Brexit negotiators have returned to work - their deadline for a deal is 31 December.

Share Markets: US share markets rose on encouraging vaccine news and rising hopes for a US economic aid package. The Dow was up 1.1%, the S&P500 rose 1.2% and the Nasdaq was up 1.3%. European markets were mixed. The FTSE100 fell 0.3% as tighter restrictions of movement are imminent, while the Dax was up a solid 1.1%.

Interest Rates: Short-end yields were steady in the Australia and the US. Australian 10-year government bond held steady at 0.96% while their US counterpart rose 2 basis points to 0.91%.

Foreign Exchange: The US dollar index fell from 90.7 to 90.5 overnight sending the AUD/USD to a high of 0.7572 before easing back a touch. The USD has weakened steadily since March when the dollar index sat at 102.8. We expect further weakness of the US dollar into 2021.

Commodities: The price of gold and copper rose in USD terms as the US dollar weakened. Iron ore prices remain firm at over \$US150 per metric tonne.

COVID-19: The US Food and Drug Administration has determined that the Moderna vaccine is safe and effective, paving the way for its emergency

authorisation for use in the US immunisation effort.

London appears set to introduce tier 3 restrictions as infections and hospitalisations continue to soar. Tier 3 restrictions include the closure of pubs, bars, restaurants, and indoor entertainment venues.

Australia: The minutes of RBA Board meeting reiterated that the Board remains committed to not increasing the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range; that it does not expect to increase the cash rate for at least 3 years, and that it is prepared to do more to stimulate the economy if necessary.

The RBA Board members agreed to keep the size of the bank's bond purchase program under review. We expect the RBA will announce a second \$100bn bond purchase program in early May 2021.

Weekly payroll job numbers were released yesterday. The figures were for the two weeks ending 28 November and showed a steady improvement with the number of payroll jobs now 2.0% below their mid-March level. During April, the number of payroll jobs was 8.5% below their mid-March level. However, employment in businesses of fewer than 20 employees has declined significantly since the end of September.

China: China's industrial production rose 7.0% over the 12 months to November. This was up from 6.9% in the year to October and reflects the ongoing

recovery of the Chinese economy. Retail spending was up 5.0% over the same period. China's approach towards economic recovery has been focussed on business activity rather than on income support for individuals.

Europe: European regulators have lifted their de facto ban on bank dividends while imposing strict limits on payout levels to help lenders maintain financial strength during the pandemic. The European Central Bank earlier said that the continent's banks should keep dividends and share repurchases to less than 15% of profit for 2019 and 2020, or 0.2% of their key capital ratio, whichever was lower.

United Kingdom: The UK's unemployment rate edged higher from 4.8% in September to 4.9% in October. This came as a further 250k jobs were lost over the last three months. The UK's unemployment rate has been rising steadily since December 2019 when it sat at 3.8%.

United States: The NY Empire State manufacturing index dipped from 6.3 in November to 4.9 in December. The index has risen from a low of negative 78 in April. It has now slipped back for the past three months a COVID-19 restriction held back activity.

Industrial production across the US rose 0.4% in November following a 1.1% rise in October. Output remains 3.6% below the pre-pandemic level of February 2020.

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Today's key data and events:

NZ Current Account Q3 exp -\$3.9bn prev \$1.8bn (8:45am)
AU WBC Leading Index Nov prev 3.25% (10:30am)
AU Business Impacts of COVID-19 Survey Dec (11:30am)
UK CPI Nov exp 0.1% prev 0.0% (6pm)
EZ Markit Eurozone Manu PMI Dec exp 53.0 prev 53.8 (8pm)
EZ Markit Euroz Services PMI Dec exp 42.0 prev 41.7 (8pm)
EZ Trade Balance Oct prev €24.0bn (9pm)
US Retail Sales Nov exp -0.3% prev 0.3% (12:30am)
US Markit Manufact PMI Dec exp 55.9 prev 56.7 (1:45am)
US Markit Services PMI Dec exp 55.9 prev 58.4 (1:45am)
US NAHB Housing Market Index Dec exp 88 prev 90 (2am)
US FOMC Decision exp 0.25% prev 0.25% (6am)

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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