

Morning Report

Thursday, 16 July 2020

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 6,052.9 | 1.9% | Last | | Overnight Chg | | | Australia | | |
| US Dow Jones | 26,870.1 | 0.9% | 10 yr bond | 99.10 | -0.02 | | | 90 day BBSW | 0.10 | 0.00 |
| Japan Nikkei | 22,945.5 | 1.6% | 3 yr bond | 99.70 | 0.00 | | | 2 year bond | 0.26 | 0.00 |
| China Shanghai | 3,523.3 | -1.6% | 3 mth bill rate | 99.87 | -0.01 | | | 3 year bond | 0.27 | -0.01 |
| German DAX | 12,931.0 | 1.8% | SPI 200 | 6,052.0 | 21 | | | 3 year swap | 0.22 | 0.00 |
| UK FTSE100 | 6,292.7 | 1.8% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 0.87 | -0.04 |
| Commodities (close & change)* | | | TWI | 60.4 | - | - | 60.8 | United States | | |
| CRB Index | 141.2 | 1.2 | AUD/USD | 0.6975 | 0.7038 | 0.6977 | 0.7009 | 3-month T Bill | 0.13 | -0.01 |
| Gold | 1,809.4 | 6.6 | AUD/JPY | 74.81 | 75.28 | 74.80 | 74.96 | 2 year bond | 0.15 | 0.00 |
| Copper | 6,497.5 | -78.5 | AUD/GBP | 0.5556 | 0.5576 | 0.5550 | 0.5568 | 10 year bond | 0.63 | 0.01 |
| Oil (WTI) | 41.0 | 0.7 | AUD/NZD | 1.0679 | 1.0693 | 1.0652 | 1.0663 | Other (10 year yields) | | |
| Coal (thermal) | 55.5 | 0.1 | AUD/EUR | 0.6120 | 0.6152 | 0.6119 | 0.6142 | Germany | -0.44 | 0.00 |
| Coal (coking) | 111.9 | -1.2 | AUD/CNH | 4.8907 | 4.9128 | 4.8862 | 4.8942 | Japan | 0.04 | 0.00 |
| Iron Ore | 109.1 | -0.1 | USD Index | 96.2 | 96.2 | 95.8 | 96.0 | UK | 0.17 | 0.02 |

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: Stocks rose overnight as optimism about a COVID-19 vaccine outweighed US-China tensions.

Share Markets: US stocks increased as more positive news surrounding a COVID-19 vaccine inspired bullish sentiment. The Dow Jones and S&P 500 both rose 0.9%. The S&P 500 is now broadly flat on the year and just 4.7% below its all-time high reached in February.

A slew of positive vaccine news this week has boosted some drug-maker stocks. In the US, Moderna Inc shares are up 28.1% this week after it reported promising early signs of its trial vaccine.

In earnings news, Goldman Sachs beat estimates after its financial markets division (fixed income, currencies and commodities) saw a 93% increase in revenue and the bank earned more in fees from helping companies raise cash amid the COVID-19 pandemic.

The ASX 200 rose 1.9% yesterday, boosted by vaccine optimism. It was the biggest daily increase in one month. The index remains down 9.4% in 2020 so far.

Interest Rates: Government bond yields were little changed overnight. The US 10-year treasury yield lifted 1 basis point to 0.63% while the 2-year yield remained flat at 0.15%.

Australian government bond yields tightened yesterday. Despite optimism about a vaccine, the yield on the 10-year bond fell 4 basis points to 0.87%. The 3-year bond yield edged lower to 0.27%.

Foreign Exchange: Riskier currencies generally gained favour overnight as risk sentiment improved. The US dollar index fell to 96.0 this morning from 96.2 yesterday.

The Australian dollar fluctuated around an upward trend and brushed the top of the range it has been trading in for the past few weeks. It is currently trading at US\$0.7009 this morning.

Commodities: Oil prices rose US\$0.7 per barrel to US\$41.0. OPEC+ said it was proceeding with a plan to gradually taper its output cuts. It will withhold 7.7 million barrels per day starting in August, down from 9.6 million per day currently.

COVID-19: There was yet further optimism around a vaccine overnight. On top of the promising early results of a clinical trial reported by Moderna Inc yesterday, a UK journalist said that the University of Oxford's vaccine trial will report "positive news".

Meanwhile, cases around the world continue to rise. The World Health Organisation said that total cases rose by 185,836 yesterday to 13.15 million globally. US cases rose by 2% to 3.47 million.

Australia recorded 259 new cases yesterday,

according to the Department of Health. Victoria accounted for 238 of the new cases while New South Wales recorded 13, mostly related to the Crossroads Hotel cluster in Sydney's south west.

Australia: The Westpac-Melbourne Institute's consumer sentiment index fell 6.1% to a reading of 87.9 in July, the first decline in three months. Concerns over rising cases of COVID-19 in Victoria was largely behind the deterioration in sentiment.

The index is still 16.2% higher than the low struck in April when a nationwide lockdown was in full force, but it is still pointing to pessimism among consumers. The index is now 8.0% below its pre-pandemic level in February.

With the survey conducted from July 6 to July 10, responses reflected the impact of the lockdown measures being imposed in Metropolitan Melbourne and Mitchell Shire, and the closure of State borders with Victoria. Confidence in Victoria fell 10.4%, the largest fall in confidence across the states.

This survey precedes the latest developments in Sydney where a growing cluster of cases in Sydney's south west could lead to a larger outbreak. This would suggest a risk that confidence will erode further.

News reports suggest that Prime Minister Scott Morrison will today announce a \$2 billion scheme to boost skills training. \$500 million will reportedly be committed to a new "JobTrainer" programme designed to help workers develop skills to gain employment coming out of the COVID-19-induced economic slump. Funding will be provided for courses that match skills identified by the National Skills Commission as being needed by the economy.

\$1.5 billion will be spent on further wage subsidies for apprentices, including for school-leavers, according to the reports. The announcement is due today ahead of the release of the official labour force figures.

Japan: The Bank of Japan (BoJ) kept monetary policy on hold. That is, it kept overnight interest rates at minus 0.1%, 10-year bond yields capped at "around zero" and purchases of equity exchange traded funds steady at a pace of ¥12 trillion a year. But the BoJ revised down its growth forecasts and warned that risks to economic activity and prices were skewed to the downside. GDP in the year to March 2021 is now expected to be -4.7% and prices are expected to decline 0.5%. The BoJ said these forecasts are based on the assumptions that a second wave of COVID-19 will not occur on a large

scale. The BoJ added that uncertainty about the outlook was extremely high.

United Kingdom: Consumer price inflation unexpectedly rose in June. Consumer prices rose 0.6% over the year in June, ahead of market consensus of a 0.4% rise and a 0.5% increase in May. The increase was driven by the cost of clothing, footwear and games. Excluding volatile items, the core CPI rose 1.4% over the year following a 1.2% increase in May.

A slump in demand amid the economic downturn is expected to weigh on consumer prices in the coming months.

United States: Industrial production rose 5.4% in June after a 1.4% increase in May, slightly ahead of expectations. Capacity utilisation picked up to 68.6% from 64.8% in May as the economy continued to reopen following the easing of restrictions. Virus cases have surged in the US in recent weeks, prompting the re-imposition of movement restrictions in many US States, which will temper output in July.

There were mixed reports on US-China tensions. US President Donald Trump ruled out placing further sanctions on Chinese officials, not wishing to provoke Beijing further, according to Bloomberg which cited "people familiar". Earlier, the US placed visa restrictions on Huawei employees, stoking tensions between the world's two largest economies.

Today's key data and events:

AU Labour Force Survey Jun (11:30am)

Employment exp -30k prev -277.7k

Unemployment Rate exp 7.3% prev 7.1%

Participation Rate exp 62.8% prev 62.9%

UK Employment Chg Jun 3m/3m exp -275k prev 6k (4pm)

EZ Trade exp €4.5bn prev €1.2bn (7pm)

EZ European Central Bank Policy Meeting (9:45pm)

US Retail Sales Jun exp 5.0% prev 17.7% (10:30pm)

US Phil. Fed Busin. Index Jul exp 20.0 prev 27.5 (10:30pm)

US Initial Jobless Claims w/e Jul 11 exp 1250k prev 1314k (10:30pm)

US NAHB Housing Mkt Index Jun exp 61 prev 58 (12am)

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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