

Morning Report

Friday, 16 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,210.3	0.5%	Last		Overnight Chg			Australia		
US Dow Jones	28,494.2	-0.1%	10 yr bond	99.25	0.02			90 day BBSW	0.09	0.01
Japan Nikkei	23,507.2	-0.5%	3 yr bond	99.83	0.00			2 year bond	0.14	-0.01
China Shanghai	3,492.3	-0.3%	3 mth bill rate	99.94	0.00			3 year bond	0.14	0.00
German DAX	12,703.8	-2.5%	SPI 200	6,186.0	-13			3 year swap	0.11	-0.02
UK FTSE100	5,832.5	-1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.77	-0.07
Commodities (close & change)*			TWI		60.8			United States		
CRB Index	151.7	0.2	AUD/USD	0.7162	0.7170	0.7056	0.7095	3-month T Bill	0.10	-0.01
Gold	1,907.5	6.0	AUD/JPY	75.30	75.37	74.26	74.79	2 year bond	0.14	0.00
Copper	20.0	20.0	AUD/GBP	0.5504	0.5511	0.5455	0.5498	10 year bond	0.74	0.01
Oil (WTI)	41.0	-0.1	AUD/NZD	1.0757	1.0765	1.0703	1.0754	Other (10 year yields)		
Coal (thermal)	59.6	1.2	AUD/EUR	0.6046	0.6102	0.6036	0.6059	Germany	-0.61	-0.03
Coal (coking)	120.9	0.1	AUD/CNH	4.8086	4.8135	4.7451	4.7621	Japan	0.02	-0.01
Iron Ore	114.1	-1.0	USD Index	93.4	93.9	93.4	93.8	UK	0.18	-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: COVID-19 cases creating concerning in Europe. The prospect of weaker global growth is pushing bond yields lower.

Share Markets: US markets ended a touch weaker after a sharp fall at the open on the back of COVID-19 concerns in Europe. The Dow fell 0.1%, the S&P500 was down 0.2% and the Nasdaq fell 0.5%. Europe was a sea of red as the prospect of further lockdowns weighed on potential corporate earnings. Expectations are also rising of a 'hard' Brexit outcome that would disrupt European trade. The FTSE was down 1.7%, the Dax fell 2.5% and the French CAC40 retreated 2.1%.

Interest Rates: Australian 10-year bond yields fell 7 basis points to 0.77% as RBA Governor, Phillip Lowe spoke about Australia's uneven recovery, the prospect of expanding its balance sheet and its new focus on actual, as opposed to expected inflation. Three-year swap rates fell 2 basis points to 0.11% despite the RBA's target for 3-year government bond yields of 0.25%. An easing is in the wind.

US markets were steady, but long-bond yields were weaker in Europe.

Foreign Exchange: The US dollar index rose overnight pushing the AUD below \$US0.71. The NZD was also weaker against the USD.

Commodities: Oil was weaker on demand concerns

out of Europe as COVID-19 cases continue to rise. Gold edged higher and there was little movement in coal or iron ore.

COVID-19: London households will be banned from mixing with others indoors from this weekend and residents will be urged to restrict journeys on public transportation. Paris goes into curfew starting on Saturday. France, Italy, Portugal, and Netherlands had new record daily cases.

Australia: After strong gains in August, employment took a step backwards in September. August saw a revised 129.1k jobs created while September saw the loss of 29.5k jobs.

The bulk of the job losses occurred in Victoria where lockdowns continue to put the brakes on economic activity. Victoria saw the loss of 35.5k jobs, a decline of 1.1% on a month earlier. There were job gains in Queensland (32.2k), South Australia (8.7k), Western Australia (2.9k) and NSW (3.3k). Tasmania saw job losses of 2.5k.

Even though 29.5k jobs were lost in September, work done rose by 8.7 million hours. While that sounds a lot, Australians worked over 1,680 million hours in September.

In other data, the Melbourne Institute's inflation gauge for October lifted to 3.4%, from 3.1% in September.

The Reserve Bank Governor yesterday also

delivered a very dovish speech, paving the way for more, marginal, monetary stimulus. We continue to expect a package of stimulatory measures to be deployed on Melbourne Cup day, including a cut to the cash rate and the buying of government bonds beyond 3-year maturities.

Lowe said further easing would "get more traction" because health restrictions on businesses and state border closures were being eased - enabling firms and consumers to take advantage of the record-low borrowing costs.

China: Inflation in China has struggled to perk up despite a broader economic recovery underway. Prices at the factory gate (i.e. producer prices) rose just 0.1% in September and contracted by 2.1% in the year to September.

Meanwhile, the consumer price index rose by 1.7% in the year to September, which is its slowest pace since February of 2019.

The annual rates for both producer prices and consumer prices contracted at a deeper rate than in the previous month.

United States: Initial jobless claims were higher than expected at 898k for the week to 10 October compared to 845k the previous week. Continuing claims continue to exceed 10 million.

The Philadelphia Fed's manufacturing index jumped to 32.3 in October beating expectations and suggesting growth momentum in the US continues. The Empire State manufacturing index was a touch weaker in October but, at 10.5, remains above levels seen throughout 2019.

Today's key data and events:

NZ BusinessNZ Manufacturing PMI Sep prev 50.7 (8:30am)

EZ Trade Aug exp €18.0bn prev €20.3bn (8pm)

EZ CPI Sep Final exp 0.1% prev 0.1% (8pm)

US Retail Sales Sep exp 0.8% prev 0.6% (11:30am)

US Industrial Production Sep exp 0.5% prev 0.4% (12:15pm)

US Business Inventories Aug exp 0.4% prev 0.1% (1am)

US UoM Cons. Sentiment Oct Prel. exp 80.5 prev 80.4 (1am)

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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