

# Morning Report

Monday, 17 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,126.2	0.6%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	27,931.0	0.1%	10 yr bond		99.05		0.00	90 day BBSW	0.10	0.00
Japan Nikkei	23,289.4	0.2%	3 yr bond		99.69		0.00	2 year bond	0.26	0.00
China Shanghai	3,522.0	1.2%	3 mth bill rate		99.89		-0.01	3 year bond	0.25	0.00
German DAX	12,901.3	-0.7%	SPI 200		6,026.0		-58	3 year swap	0.21	0.00
UK FTSE100	6,090.0	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.93	0.05
Commodities (close & change)*			TWI	61.6	-	-	61.5	<b>United States</b>		
CRB Index	149.2	0.3	AUD/USD	0.7146	0.7179	0.7132	0.7174	3-month T Bill	0.09	-0.01
Gold	2,019.2	42.2	AUD/JPY	76.42	76.56	76.15	76.51	2 year bond	0.15	-0.02
Copper	6,376.3	114.8	AUD/GBP	0.5473	0.5483	0.5448	0.5478	10 year bond	0.71	-0.01
Oil (WTI)	42.0	-0.2	AUD/NZD	1.0917	1.0964	1.0916	1.0953	<b>Other (10 year yields)</b>		
Coal (thermal)	57.6	0.2	AUD/EUR	0.6050	0.6063	0.6042	0.6060	Germany	-0.42	-0.01
Coal (coking)	112.1	0.0	AUD/CNH	4.9665	4.9854	4.9544	4.9824	Japan	0.05	0.02
Iron Ore	115.9	0.2	USD Index	93.3	93.4	93.0	93.1	UK	0.24	0.00

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 economic data on Friday raised questions on the pace of any recovery. US bond yields fell as a result but US share markets had a mixed result.

**Share Markets:** US share markets were mixed on Friday. The S&P 500 index fell by 1 point (or 0.0%) while the Dow Jones rose by 34 points (or +0.1%). On Friday, the Australian share market lifted by 35 points (or +0.6%), underpinned by demand for health and technology shares. Last week, the ASX 200 gained 2.0%, its best weekly result in 6 weeks.

**Interest Rates:** US bond yields fell across the curve with the 2-year bond yield dropping by 2 basis points and the 10-year yield edging 1 basis point lower.

**Foreign Exchange:** The Australian dollar firmed against the US dollar in Friday night's trade but stuck within its recent trading ranges. On Friday, the AUD/USD held within 0.7132 and 0.7179.

**Commodities:** Most commodity prices firmed on Friday night with a key exception being oil.

**COVID-19:** Victoria reported 279 new infections on Sunday, as its state of emergency was extended by four weeks. An additional 16 deaths were also recorded with 11 linked to aged care.

Up to 300 international students will start arriving in Adelaide as part of a pilot program to restart the international education sector. The students will

travel from Singapore on flights arriving by early September.

More NSW manufacturing businesses are being encouraged to switch to Personal Protective Equipment (PPE) production. NSW Deputy Premier John Barilaro announced a new \$5 million grants scheme aimed at increased PPE production.

Globally, there have now been more than 21.5 million infections and the death toll has passed 770,000. Notably yesterday France recorded its highest one-day rise since May. NZ also continues to face a growing cluster with 13 new cases confirmed yesterday.

**Australia:** Governor of the Reserve Bank (RBA) Philip Lowe delivered his semi-annual testimony to parliament on Friday. In his address, he reiterated the need to support jobs throughout the current health crisis. He argued that by borrowing today to support incomes, it would avoid an even bigger loss in output and jobs in the future.

His statement highlighted that fiscal policy had the potential to be expanded. Governor Lowe pointed out that Australia's public finances remained in adequate shape and that government financing costs have never been lower.

During questions, the Governor said he was confident the cash rate would remain at its current level of 0.25% for three years. He once again said

that negative interest rates were “extraordinarily unlikely”, but also didn’t rule them out, saying “in a world that is so uncertain and so fluid, I don’t think it’s prudent to rule it out”.

**Europe:** Employment dropped 2.8% in Q2, after a decline of 0.2% in Q1, as the pandemic hurt economic growth and jobs growth. GDP for Q2 fell by a large 12.1% in Q2, taking the annual rate of contraction to 15.0%.

**New Zealand:** The REINZ house price index surged 24.6% in annual terms in July, up from 7.1% in June. July was the first full month in which the country was at “alert level 1” and resulted in the release of pent-up demand as activity returned to normal.

Other data released showed that sentiment in the manufacturing sector rebounded further in July, as the country enjoyed minimal COVID-19 restrictions. The manufacturing purchasing managers’ index (PMI) edged higher to 58.8 in July, from 56.2 in June. Concerns over the emerging cluster originating in Auckland are likely to dent optimism in the coming months.

**China:** The recovery in the industrial sector continued in July, but weakness in retail sales raised further concerns about the outlook for consumer spending. Industrial production rose 4.8% in annual terms in July, the same pace as in June. July retail sales declined by 1.1% compared with a year ago, missing consensus expectations of a 0.1% increase, but better than the 1.8% fall recorded in June. Fixed asset investment was 1.6% lower in the first seven months of the year compared with the same period last year, up from -3.1% over the first half of 2020.

The weakness in private demand has reignited expectations of further stimulus from the authorities, including the potential for another rate cut.

New home prices across 70 major cities expanded at a slightly slower rate in July of 0.47% compared with a 0.58% increase in June.

**United States:** Friday's US economic data raised questions about the strength of any recovery. Retail sales gained 1.2% in July from the previous month, missing consensus for a 2.1% uptick, and below June's revised 8.4% bounce. While industrial production matched estimates, rising 3.0%, and manufacturing production increased 3.4%, both outcomes were lower than June’s results. Consumer sentiment remained weak in August, with the University of Michigan's preliminary sentiment index rising only 0.3 point to 72.8.

According to news reports, the six-month review of

the China-US trade deal that was scheduled to occur via video conference over the weekend was called off.

US Congress has adjourned for its August recess and will not return until September 7, leaving little chance of an agreement on the US fiscal stimulus package in the near term.

#### Today’s key data and events:

NZ Performance of Services Index Jul prev 54.1 (8:30am)

EZ Construction Output Jun prev 27.9% (7pm)

US Empire Mfg Index Aug exp 14.5 prev 17.2 (10:30pm)

US NAHB Housing Index Aug exp 74 prev 72 (12am)

US Fed’s Bostic Speech (2am)

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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