

Morning Report

Thursday, 17 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,679	0.7%	Last		Overnight Chg			Australia		
US Dow Jones	30,155	-0.1%	10 yr bond	98.98	-0.01			90 day BBSW	0.01	0.00
Japan Nikkei	26,757	0.3%	3 yr bond	99.80	-0.01			2 year bond	0.10	0.00
China Shanghai	3,529	0.0%	3 mth bill rate	99.98	0.00			3 year bond	0.11	0.00
German DAX	13,566	1.5%	SPI 200	6,706.0	27			3 year swap	0.17	0.00
UK FTSE100	6,571	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.96	0.00
Commodities (close & change)*			TWI	62.2	-	-	62.5	United States		
CRB Index	163.9	0.8	AUD/USD	0.7560	0.7579	0.7539	0.7571	3-month T Bill	0.08	0.00
Gold	1,864.09	10.4	AUD/JPY	78.34	78.43	78.13	78.36	2 year bond	0.12	0.00
Copper	7,827.75	52.8	AUD/GBP	0.5623	0.5623	0.5585	0.5613	10 year bond	0.92	0.01
Oil (WTI)	47.84	0.2	AUD/NZD	1.0661	1.0692	1.0628	1.0664	Other (10 year yields)		
Coal (thermal)	84.20	-0.3	AUD/EUR	0.6217	0.6226	0.6194	0.6214	Germany	-0.57	0.04
Coal (coking)	101.21	0.0	AUD/CNH	4.9268	4.9361	4.9158	4.9299	Japan	0.01	0.01
Iron Ore	154.79	1.5	USD Index	90.5	90.7	90.1	90.3	UK	0.27	0.01

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: US Federal Reserve policymakers met overnight and left policy unchanged. A US stimulus deal is getting closer, but hurdles remain. The batch of US economic data overnight was mixed. This data included a bigger-than-expected fall in retail sales amid a surge in COVID-19 cases.

Share Markets: US share markets had a mixed performance. The Dow fell 45 points (or -0.2%) but the S&P 500 rose 8 points (+0.2%).

Interest Rates: US bond yields were little changed overnight. The US 10-year bond yield edged up 1 basis point while yields at the shorter end of the yield curve were unchanged.

Foreign Exchange: The Australian dollar recorded a fresh 2½-year high against the greenback of 0.7579. We continue to expect the AUD to reach 77 US cents in the short term and 80 US cents by early next year.

In other currencies, the EUR/USD reached an overnight high of 1.2212, the highest since April 2018, before succumbing to selling.

Commodities: Oil and gold inched higher overnight.

COVID-19: Yesterday, NSW recorded three new cases of COVID-19 in the community.

There are now 73.7 million infections worldwide. Overnight, Germany recorded the most fatalities since the pandemic began, just as its hard lockdown

began. In the UK, almost 140,000 Britons have already been vaccinated.

Australia: The key finding of the December ABS survey on the business impacts of COVID-19 was that 25% of businesses reported an increase in revenue over the previous month. Twenty-one per cent of businesses were finding difficulty employing suitably skilled staff and 65% of medium and large employing businesses were planning to employ more staff over the next three months.

The Westpac/Melbourne Institute leading index rose 0.5% in November and has risen every month since April. The pace of growth is the strongest in the sixty-year history of the measure. However, the gains largely reflect the severity of the preceding contraction. The index points to solid growth in economic activity over the next three to nine months.

New home sales rose 15.2% in November to reach a decade high of 7,054. According to the Housing Industry Authority (HIA), the increase was driven by a 20.6% rise in Victoria as it emerged from stage four restrictions. The remaining states also rose during the month.

Europe: The purchasing managers' indexes for manufacturing, services and composite all improved in December. Except for services, the indexes printed above 50.0, suggesting a favourable outlook

for activity in the months ahead.

New Zealand: The Q3 current account deficit came in lower than expected at \$3.5 billion. After seasonal adjustment, the deficit was \$0.4 billion compared to the record surplus in the previous quarter of \$0.6 billion. A rise in car imports was the main contributor to the deterioration back into deficit.

United Kingdom: Consumer prices unexpectedly fell 0.1% in November, taking the annual rate to a very soft pace of 0.3%. The core annual measure also slowed to 1.1% growth.

United States: Retail trade dropped 1.1% in November amid a surge in COVID-19 infections and new business restrictions in some states. Consensus were expecting a smaller fall of 0.3%. October retail sales were also revised to a decline of 0.1% from an earlier estimate of a 0.3% increase. Retail sales were up 4.1% in November when compared with the same month a year ago. Restaurants, department stores and vehicle dealerships reported sharp sales declines in November. The retail sales is the latest report to suggest the recovery in the US is slowing.

The National Association of Home Builders (NAHB) housing market index is a gauge of builder confidence in the housing market. The index fell 4 points to 86 in December, which is the index's second highest level in the history of the series. A reading above 50 indicates a favourable outlook.

Several purchasing managers' indexes were also published last night by Markit. The readings in December were lower than in November for each of the indexes for manufacturing (-0.2 points to 56.5), services (-3.1 points to 55.3) and composite (-2.9 points to 55.7). Markit attributed the loss of momentum to rising COVID-19 cases and supply constraints. However, the readings remained well above 50.0 suggesting activity should continue to expand in the months ahead.

The Federal Open Market Committee (FOMC) kept policy on hold and pledged to maintain its monthly \$120 billion bond-buying program until it sees "substantial further progress" in employment and inflation. The FOMC did not change its tune regarding the economy, noting "considerable risks" to their outlook and reiterating that the pandemic will determine the path of the recovery. The dot plot of the Federal funds rate projections was unchanged; the current rate is expected to remain unchanged through 2023.

A US stimulus deal is in sight, but hurdles remain.

Republican Senator John Thune last night said the expected package of less than \$900 billion may include individual cheques of \$600-\$700 dollars but will not include state and local aid or business liability protections. However, colleague Mike Crapo is now pushing for language that would prevent the Biden administration from restarting the Federal Reserve's emergency lending programs.

Today's key data and events:

AU Mid Year & Economic and Fiscal Outlook (MYEFO) (Time to be Confirmed)

NZ GDP Q3 exp 12.9% prev -12.2% (8:45am)

AU Labour Force Nov (11:30am)

Employment Change exp 75k prev 178.8k

Unemployment Rate exp 7.0% prev 7.0%

Participation Rate exp 66.1% prev 65.8%

EZ CPI Core Nov Final exp 0.2% prev 0.2% (9pm)

UK BoE Policy Decision exp 0.10% prev 0.10% (11pm)

US Philadelphia Fed Index Dec exp 20.0 prev 26.3 (12:30am)

US Housing Starts Nov exp 0.3% prev 4.9% (12:30am)

US Building Permits Nov exp 1.0% prev -0.1% (12:30am)

US Kansas City Fed index Dec exp 9 prev 11 (3am)

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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