

Morning Report

Tuesday, 18 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,076.4	-0.8%			Last	Overnight Chg		Australia		
US Dow Jones	27,844.9	-0.3%	10 yr bond	99.09		0.01		90 day BBSW	0.10	0.00
Japan Nikkei	23,096.8	-0.8%	3 yr bond	99.70		0.00		2 year bond	0.27	0.00
China Shanghai	3,604.5	2.3%	3 mth bill rate	99.89		-0.01		3 year bond	0.26	0.00
German DAX	12,920.7	0.1%	SPI 200	6,056.0		35		3 year swap	0.22	0.00
UK FTSE100	6,127.4	0.6%	FX Last 24 hrs					10 year bond	0.90	-0.03
Commodities (close & change)*			TWI	61.5	-	-	61.7	United States		
CRB Index	150.9	1.7	AUD/USD	0.7174	0.7227	0.7171	0.7218	3-month T Bill	0.09	-0.01
Gold	1,985.2	40.0	AUD/JPY	76.51	76.68	76.35	76.52	2 year bond	0.15	0.00
Copper	6,376.3	114.8	AUD/GBP	0.5478	0.5517	0.5473	0.5507	10 year bond	0.69	-0.02
Oil (WTI)	42.9	0.8	AUD/NZD	1.0953	1.1029	1.0955	1.0990	Other (10 year yields)		
Coal (thermal)	51.0	0.1	AUD/EUR	0.6060	0.6084	0.6051	0.6080	Germany	-0.45	-0.03
Coal (coking)	111.8	-0.3	AUD/CNH	4.9824	5.0092	4.9756	5.0049	Japan	0.05	0.00
Iron Ore	116.9	1.0	USD Index	93.1	93.1	92.8	92.8	UK	0.22	-0.03

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: Equities in the US flirted with their record highs, but sentiment remained constrained amid little major news flow. Investors continue to watch for signs of an elusive breakthrough in US stimulus negotiations ahead of the Democratic and Republican political conventions.

Share Markets: US stocks ended mixed as large technology stocks rose and bank shares fell. The S&P 500 briefly traded above its all-time high before slipping back below it. The S&P 500 closed 0.3% higher while the Dow Jones closed 0.3% lower. The NASDAQ closed at its record high, up 1.0% overnight.

The ASX 200 fell 0.8% yesterday, led by declines in financials and telecommunications stocks. Australian stocks have underperformed so far this year compared with their US counterparts. The ASX 200 remains 9.1% lower so far this year and is 15.2% below its record high. In contrast, the S&P 500 is up 4.7% over the year to date and is just 0.1% shy of its record high closing value.

Interest Rates: US treasuries advanced, with the 10-year treasury yield down 2 basis points to 0.69% and the yield on the 3-month treasury bill 1 basis point lower at 0.09%. The 2-year treasury yield remains at 0.15%.

The Australian 10-year government bond yield fell 3 basis points to 0.90% yesterday while the rest of the

curve remained broadly unchanged. The 3-year swap yield remains below the 3-year bond (0.22% versus 0.26%, respectively) and the 90-day bank-bill swap rate is at 0.10%.

Foreign Exchange: The US dollar weakened against most G10 countries overnight. The US dollar index is currently at 92.8 compared with 93.1 yesterday.

The Australian dollar rose, benefitting from a risk-on move in currencies and an increase in iron ore futures prices. The AUD rose to US\$0.7218 this morning. The reappearance of COVID-19 cases in New Zealand spurred the AUD/NZD to a high of NZ\$1.1029, its highest since October 2018.

Commodities: Oil prices rose ahead of an OPEC+ gathering slated for today. Members are due to discuss the supply deal which resulted in the largest cuts to output on record. OPEC+ is aiming to gradually wind back cuts without causing prices to plunge back to their April levels. WTI futures rose US\$0.8 per barrel to US\$42.9.

The price of gold bounced more than 2% to US\$1,985.2, boosted by a weaker US dollar and a decline in treasury yields.

COVID-19: Australia recorded 290 new COVID-19 cases yesterday, according to the Department of Health. Victoria recorded 282 of those cases and NSW accounted for 7. The remaining new case was

in South Australia.

Australia: There was no major economic data released yesterday in Australia.

Europe: The Bundesbank said that it expected the German economy to “grow very strongly” in Q3 2020 following the largest peacetime contraction in GDP in Q2. It warned that a vaccine may be necessary before a complete recovery can occur.

New Zealand: New Zealand’s Prime Minister yesterday postponed the election by a month to October 17.

United States: Confidence among US home builders rose for the third straight month in August, equalling its record high. The NAHB housing market index rose faster than expected to 78 in August from 72 in July. Respondents to the survey noted strength in the market for single-family, detached dwellings.

Separate data showed that despite the enthusiasm among builders, mortgage delinquencies increased in Q2. Delinquencies rose to 8.2% in Q2, up nearly 4 percentage points from 4.4% in Q1 as the pandemic caused income stress in many households. It was the highest quarterly increase on record.

Meanwhile, the Empire Manufacturing Index, which measures manufacturing sector activity in the State of New York, missed expectations. The index fell to 3.7 in August from 17.2 in July, well below expectations of a more muted fall to 15.0. The sharp decline in manufacturing conditions in New York suggests that the momentum of the initial recovery following the lifting of lockdowns across the State is fading. The weaker-than-expected outcome was driven by dwindling new orders, which fell to -1.7 from 13.9 in July. There was some good news in the report, with the employment index picking up by 2 points to 2.4 in August.

Today’s key data and events:

AU RBA Policy Minutes (11:30am)

US Building Permits Jul exp 1320k prev 1258k (10:30pm)

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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