bankSA

Morning Report

Friday, 18 December 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,757	1.2%		Last		Overnight Chg		**Australia**		
US Dow Jones	30,303	0.5%	10 yr bond	98.96		0.00		90 day BBSW	0.01	0.00
Japan Nikkei	26,807	0.2%	3 yr bond	99.77		-0.02		2 year bond	0.11	0.01
China Shanghai	3,569	1.1%	3 mth bill rate	99.98		0.00		3 year bond	0.11	0.00
German DAX	13,667	0.7%	SPI 200	6,691.0		-1		3 year swap	0.19	0.01
UK FTSE100	6,551	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.99	0.03
Commodities (close & change)*			TWI	62.2	-	-	62.6	**United States**		
CRB Index	165.5	1.6	AUD/USD	0.7560	0.7640	0.7567	0.7621	3-month T Bill	0.08	0.00
Gold	1,884.75	20.0	AUD/JPY	78.34	78.82	78.29	78.60	2 year bond	0.12	0.01
Copper	7,912.25	84.5	AUD/GBP	0.5623	0.5625	0.5597	0.5616	10 year bond	0.93	0.01
Oil (WTI)	48.43	0.6	AUD/NZD	1.0661	1.0671	1.0626	1.0665	**Other (10 year yields)**		
Coal (thermal)	84.05	-0.2	AUD/EUR	0.6217	0.6247	0.6203	0.6214	Germany	-0.57	0.00
Coal (coking)	101.21	0.0	AUD/CNH	4.9268	4.9751	4.9266	4.9661	Japan	0.01	0.00
Iron Ore	157.00	2.2	USD Index	90.5	90.3	89.7	89.8	UK	0.29	0.02

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 jobs data suggested the US economic recovery is losing momentum, but investors still whet their appetites for risk. Key US share market indexes hit all-time highs. US Treasuries sold off and the US dollar succumbed to further selling. The Australian dollar hit a new 2½-year high of 0.7640 and has almost hit our short-term target of 0.7700. We continue to expect the AUD to reach US 80 cents by early next year.

Share Markets: The major US share market indexes hit all-time highs overnight, as optimism over a government-relief deal outweighed worrisome unemployment data. The S&P 500 climbed for a third straight day to finish 21 points higher (or +0.6%). The Dow Jones lifted 149 points (or +0.5%) and the Nasdaq raced ahead by 107 points (or +0.8%).

The ASX 200 rose 77 points (or +1.2%) to 6756.7, which is its highest level since late February. Since hitting a trough on 23 March, the ASX 200 has risen 48.6%. Very low rates of interest and an improving growth outlook is spurring the share market higher, despite some ongoing uncertainty and risks related to the pandemic.

Interest Rates: The improved risk appetites of investors, which helped equities surge, led to a modest sell-off in US Treasury prices. The US 2-year and 10-year bond yields each rose by 1 basis point.

Foreign Exchange: The Australian dollar made a new 2½-year high of 0.7640 and has almost hit our short-term target of 0.7700. Back on 30 November we flagged that we expected the AUD/USD to strike 0.7700 in the short term due to the strong price action and favourable underlying fundamentals that include an elevated iron ore price. In particular, the US dollar's break below the very long-term support level of 91.0 was a key turning point for the AUD/USD. We continue to expect the AUD/USD exchange rate to move higher and expect 80 US cents to be reached by early next year. The US dollar continued to succumb to selling overnight.

Commodities: Most commodity prices finished the overnight session higher, including gold and oil.

COVID-19: Yesterday, NSW recorded fourteen new cases of COVID-19 in the community, taking the cluster in the northern beaches to seventeen.

Australia: In November, 90.0k jobs were created. This follows the creation of 180.4k jobs in October. Jobs are being recreated at a solid pace as the economy re-opens, and there are more to come.

An expanding employment market is drawing back discouraged workers. The participation rate rose from 65.8% in October to 66.1% in November and the unemployment rate fell to 6.8% from 7.0% in October.

The level of employment in Australia is now just

0.7% below its pre-COVID-19 level in February but that still represents over 143k jobs lost.

In November, hours worked reached 1,752million hours, 0.7% below their pre-pandemic level.

Despite the good news on job growth and unemployment, youth unemployment remains disturbingly high, ticking up from 14.5% in October to 14.6% in November.

Victoria led the charge in jobs growth but remains 1.8% below its February, pre-pandemic level with an unemployment rate of 7.1%. Queensland and South Australia reported job losses but there was jobs growth in all the other States.

We expect the unemployment rate to stand at 6.0% in December 2021 and 5.2% in December 2022. We believe the peak in the unemployment rate is now behind us.

The Budget bottom-line for 2020-21 has improved by $15.9 billion since the Federal Budget was handed down on October 6. A faster economic recovery and stronger-than-expected iron ore prices are behind the improvement.

The Federal government warns that there is a “long way to go” until the Australian economy fully recovers and the unemployment rate is brought down comfortably below 6%.

Since October 6, there have been encouraging developments around COVID-19 vaccine research. But the government warns these vaccines are still subject to uncertainty with respect to timing, distribution and efficacy in controlling the spread of the virus globally. An elevated unemployment rate and trade tensions were flagged as the key domestic risks.

Several of the key forecasts underpinning the Budget bottom line projections are too pessimistic. In particular, the forecasts for iron ore, unemployment and economic growth. This suggests to us there is a good chance the Budget’s bottom-line will be better-than-expected next year. It is akin to a “hollow log” or the Treasurer looking through dark-coloured glasses. However, we also think there is a high probability the Federal government will have to extend the JobKeeper scheme, which will impact the Budget’s bottom-line.

Europe: The Swiss National Bank (SNB) met overnight. The SNB pledged to continue an expansive monetary policy and forex interventions it said were vital to cushion the impact of COVID-19. The central bank kept its policy interest rate at -0.75%, the world’s lowest, and said it remained willing to buy foreign currencies “more strongly”. The SNB said the interventions were necessary to relieve pressure on the Swiss franc, which has attracted safe-haven inflows during the crisis.

The final reading for consumer prices in the eurozone region for November showed a decline of 0.3% for the month and for the year. Core inflation growth was also very soggy. Core inflation grew just 0.2% in the twelve months to November.

New Zealand: The NZ economy has rebounded from recession with record quarterly growth driven by a surge in consumer spending, strong housing activity and a solid increase in exports. GDP rose by 14.0% in Q3, after a revised fall of 11.0% in Q2. The consensus of forecasts was for a rise of 13.5%. The strongest parts of the economy were retail and accommodation, up 42.8%, construction which gained 52.4% on the surge in new house building, and manufacturing, which was up 17.2%. In annual terms, growth returned to 0.4%, from a decline of 11.3%.

NZ’s Finance Minister Robertson pushed back on providing Reserve Bank of NZ (RBNZ) with a debt-to-income macro prudential tool, so not to close property opportunities to first-time buyers, whilst also stating that the current level of NZ dollar was not problematic.

United Kingdom: The Bank of England (BoE) Monetary Policy Committee (MPC) met overnight. The BoE’s last decision of 2020 was to stand pat amid ongoing Brexit talks. The central bank also maintained its total asset purchase target. It pledged additional action if necessary and extended the term funding scheme for small companies by six months.

United States: Initial jobless claims unexpectedly jumped to 885,000, the highest in three months, from the prior week's revised 862,000 figure. Consensus expectations were centred on a drop to 818,000. The data suggests the labour market’s recovery is faltering amid the surge in COVID-19 cases and widening business restrictions.

With the outlook shaky, US lawmakers are working out the final details of a new relief package that would extend pandemic jobless aid. Overnight, US Senate Majority Leader Mitch McConnell said that a bipartisan stimulus deal "appears to be close at hand". However, McConnell warned that it will probably require work over the weekend to get through Congress. US House Speaker Nancy Pelosi also cited progress on a stimulus deal. But Republicans are still pushing to explicitly terminate the Federal Reserve's emergency lending program before the end of the year, limiting the incoming Biden administration's ability to address the crisis.

US homebuilding and permits increased solidly in November. Housing starts rose 1.2% to an annual rate of 1.547 million units and surged 12.8% on a year ago. Meanwhile, building permits jumped 6.2% in November. The data points to sustained housing market strength even as the broader US economic recovery is slowing amid a resurgence in new COVID-19 cases and lack of addition government stimulus.

The Philadelphia Fed business outlook index fell to 11.1 in December, from 26.3 in November. Consensus expected a gentler decline to 20.0. The unemployment and new orders recorded very sharp declines in the month, suggesting a slowing in the pace of recovery in this Federal Reserve district.

Today's key data and events:

NZ Consumer Confidence Dec prev -1.7% (8am)

NZ Trade Balance Nov exp $255mn prev -$501mn (8:45am)

EZ Current Account Oct prev €25.2bn (8pm)

UK CBI Trends Total Orders Dec exp -40 prev -40 (10pm)

US Current Account Q3 exp -$187.0bn prev -$170.5bn (12:30am)

US Leading Index Nov exp 0.5% prev 0.7% (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.

Besa Deda, Chief Economist
Ph: 02-8254-3251

This is our last morning report for 2020. This report will be returning on Monday, 18 January 2021.

We wish you a happy & safe festive season and we thank you for your readership.

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316