

Morning Report

Wednesday, 19 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,123.4	0.8%	Last		Overnight Chg			Australia		
US Dow Jones	27,778.1	-0.2%	10 yr bond	99.11	0.00			90 day BBSW	0.10	0.00
Japan Nikkei	23,051.1	-0.2%	3 yr bond	99.70	-0.01			2 year bond	0.27	0.00
China Shanghai	3,617.4	0.4%	3 mth bill rate	99.90	0.00			3 year bond	0.26	0.00
German DAX	12,881.8	-0.3%	SPI 200	6,065.0	-4			3 year swap	0.21	-0.01
UK FTSE100	6,076.6	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	-0.03
Commodities (close & change)*			TWI	61.7	-	-	62.0	United States		
CRB Index	151.7	0.8	AUD/USD	0.7218	0.7265	0.7209	0.7242	3-month T Bill	0.10	0.00
Gold	2,003.7	18.4	AUD/JPY	76.52	76.55	76.12	76.33	2 year bond	0.14	-0.01
Copper	6,444.8	78.5	AUD/GBP	0.5507	0.5507	0.5463	0.5470	10 year bond	0.67	-0.02
Oil (WTI)	42.6	-0.3	AUD/NZD	1.0990	1.1044	1.0960	1.0972	Other (10 year yields)		
Coal (thermal)	52.2	-0.1	AUD/EUR	0.6080	0.6083	0.6050	0.6067	Germany	-0.46	-0.01
Coal (coking)	110.5	-1.3	AUD/CNH	5.0049	5.0168	4.9894	5.0027	Japan	0.04	-0.01
Iron Ore	122.7	5.8	USD Index	92.8	92.8	92.1	92.3	UK	0.22	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: Solid earnings and economic data helped two of the three main US equity indices close at their record highs overnight. The US dollar continued its slide to a 27-month low.

Share Markets: The S&P 500 edged higher by 0.2% overnight, closing at its record high. It caps an extraordinary six months for the index. From its previous peak on 19 February 2020, it fell 34% in a little over a month, before embarking on 52% rally over the next five months. It has been the fastest ever comeback for the index after falling more than 20%.

A strong earnings announcement from Walmart supported US stocks, with the consumer discretionary sector performing best. A surge in online sales boosted overall revenue. As has been typical of the pandemic, tech shares also performed strongly. The NASDAQ rose 0.7% to also close at a fresh record high.

Oil prices fell overnight, buffeting energy and industrials stocks. The Dow Jones declined by 0.2%.

The ASX 200 rose 0.8% yesterday, recovering Monday's losses. Futures are pointing to a relatively sedate open this morning.

Interest Rates: US treasury yields reversed gains from earlier in the session to close lower. The 2-year treasury yield declined by 1 basis point to 0.14% and the 10-year yield fell 2 basis points to

0.67%.

Australian bond yields fell yesterday after the RBA reiterated its uncertainty regarding the economic outlook. The 10-year yield fell 3 basis points to 0.87%. The 3-year bond yield was unchanged at 0.26%.

Foreign Exchange: The US dollar continued to weaken overnight as investors assessed the economic outlook as better-than-expected amidst the COVID-19 pandemic. The US dollar index fell further to 92.317, the lowest since May 2018.

The positive mood towards risk favoured the AUD, which remains on an upward trend. The AUD is currently at US\$0.7242 this morning, off its overnight high of US\$0.7265 but remaining comfortable above 72 US cents.

Commodities: Oil prices retraced slightly amid expectations that OPEC+ will scale back production cuts during its meetings this week. WTI futures fell 0.8% to US\$42.6 per barrel. A draft report from an OPEC+ panel said that its members adhered to between 95%-97% of their agreed cuts in July.

COVID-19: The Department of Health reported 226 new cases in Australia yesterday, with Victoria accounting for 222.

The Australian Government has signed an agreement with AstraZeneca to secure a supply of

the potential vaccine being developed by Oxford University, if its trials prove successful. The government said it plans to manufacture it immediately and make it free for all Australians, should the vaccine prove safe and effective.

German Chancellor Angela Merkel ruled out an easing of restrictions after a spike in cases during the summer holidays.

Australia: The Reserve Bank (RBA) minutes of the August meeting were released yesterday. Board members agreed that the package of policies implemented in March was working broadly as expected, however, the key theme of the minutes was the major uncertainty regarding the outlook.

There was a detailed discussion of three scenarios for economic growth, mirroring the Statement on Monetary Policy (SoMP) released a few days after the August meeting. The baseline scenario for the RBA is that Melbourne's Stage 4 restrictions are not materially extended and that Australia's international border remains closed until mid-2021. Under this scenario, GDP is forecast to decline by 6% in 2020 followed by a recovery of 5% in 2021.

Despite lending costs falling to record lows, members noted that the demand for new loans (especially among SMEs) had been low, indicating that this transmission mechanism of monetary policy could be reaching the limit of its potency.

The minutes explicitly recognised the positive contribution to the economy from the extension of fiscal support. In particular, the Federal Government announced that it would be extending JobKeeper and JobSeeker, avoiding the so-called September Fiscal Cliff.

United States: Signs of strength in the housing market solidified after further data was released overnight. Housing starts and permits both rose by more than expected.

Housing starts rose 22.6% in July following a 17.5% rise in June. At just under 1.5 million new homes commencing construction, the level of new building is still below pre-pandemic levels. However, activity is catching up quickly with double-digit monthly percentage increases in each of the past three months.

Housing permits rose 18.8% in July after a 3.5% rise previously, suggesting that the pipeline for construction remains solid.

On the stimulus front, House Speaker Nancy Pelosi indicated that her Democratic party might be willing to reduce the size of their proposed stimulus

package in order to reach an agreement with Republicans. She said this compromise would be on the condition that talks resumed after the November elections to address additional items.

Today's key data and events:

NZ Input Producer Prices Q2 prev -0.3% (8:45am)
 NZ Output Producer Prices Q2 prev 0.1% (8:45am)
 AU Westpac Leading Index Jul prev 0.44% (10:30am)
 UK CPI Jul exp -0.1% prev 0.1% (4pm)
 UK CPI Core Jul y/y exp 1.2% prev 1.4% (4pm)
 UK Retail Price Index Jul exp 0.1% prev 0.2% (4pm)
 UK PPI Input Jul exp 1.1% prev 2.4% (4pm)
 UK PPI Output Jul exp 0.2% prev 0.3% (4pm)
 EZ CPI Jul F exp -0.3% prev -0.3% (7pm)
 EZ CPI Core Jul F y/y exp 1.2% prev 1.2% (7pm)
 US FOMC Meeting Minutes (4am)
 US Fed's Barkin Speaks (5am)

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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