

Morning Report

Monday, 19 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,176.8	-0.5%	Last		Overnight Chg			Australia		
US Dow Jones	28,606.3	0.4%	10 yr bond	99.27	-0.01			90 day BBSW	0.08	-0.01
Japan Nikkei	23,410.6	-0.4%	3 yr bond	99.84	0.00			2 year bond	0.14	0.00
China Shanghai	3,496.7	0.1%	3 mth bill rate	99.94	0.00			3 year bond	0.12	-0.02
German DAX	12,909.0	1.6%	SPI 200	6,203.0	39			3 year swap	0.11	0.00
UK FTSE100	5,919.6	1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.72	-0.04
Commodities (close & change)*			TWI	60.4	-	-	60.0	United States		
CRB Index	151.5	-0.3	AUD/USD	0.7095	0.7098	0.7071	0.7080	3-month T Bill	0.09	-0.01
Gold	1,899.3	-9.4	AUD/JPY	74.79	74.83	74.39	74.62	2 year bond	0.14	0.00
Copper	6,724.5	-14.8	AUD/GBP	0.5498	0.5508	0.5467	0.5486	10 year bond	0.75	0.01
Oil (WTI)	40.9	-0.1	AUD/NZD	1.0754	1.0755	1.0704	1.0716	Other (10 year yields)		
Coal (thermal)	59.1	1.3	AUD/EUR	0.6059	0.6062	0.6030	0.6038	Germany	-0.62	-0.01
Coal (coking)	117.0	-3.9	AUD/CNH	4.7621	4.7642	4.7342	4.7402	Japan	0.02	0.00
Iron Ore	114.9	0.8	USD Index	93.8	93.9	93.5	93.7	UK	0.18	0.00

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 economic data was mixed with retail sales strong but industrial production weak. The US stimulus package also continues to remain unresolved. Currency markets traded within narrow ranges and global bond yields were little changed.

Share Markets: The major US share market bourses finished higher on Friday. The S&P 500 index lifted 0.5 of a point while the Dow Jones rose 112 points (or +0.4%).

Interest Rates: US government bond yields ended Friday's session little changed. The US 2-year bond yield was unchanged at 0.14% and the US 10-year yield rose just 1 basis point to 0.75%.

Foreign Exchange: The Australian dollar was directionless on Friday. It stuck to a very narrow range of 0.7071-0.7098 against the US dollar. The wider range of 0.7050-0.7250 that it has been in for the past 2½ weeks is unlikely to be broken in the near term.

Commodities: A small group of key OPEC+ ministers are set to review compliance with production cuts later today and weigh up the near-term outlook.

COVID-19: NSW reported one locally-transmitted infection yesterday and Victoria reported two.

At midnight, Victoria's 5km restrictions have been extended to 25km and the 2-hour limits on gatherings and exercising outside scrapped. Cafes,

pubs, restaurants and retailers will still have to wait another two weeks to reopen. These easing of restrictions follow more than 100 days of a hard lockdown.

Elsewhere, the US had its fifth consecutive day of infections over 50,000. Italy's cases swelled to a daily record and the government prepared new containment measures. London and Paris enforced new curbs and Switzerland made masks mandatory in many venues.

Australia: No major data released.

China: U.S.-China tensions are ramping up. The Wall Street Journal reported Beijing warned Washington that it may detain Americans if the Trump administration does not stop prosecuting Chinese academics. Separately, China passed a law to restrict sensitive exports to protect national security, the latest reciprocal move against America in the tech sphere. The measure applies to all companies, including foreign-invested ones, effective 1 December 2020.

Europe: The trade surplus expanded to €21.9 billion in August, from €19.3 billion in July.

The final outcomes for consumer price inflation remained unchanged. The core annual rate of inflation remained soft at just 0.2% for September.

New Zealand: Jacinda Ardern swept to a huge win

in New Zealand's general election. Her Labour Party secured the first outright majority in parliament since the introduction of proportional representation in 1996 and, if preliminary results stand, its biggest share of the vote in more than 70 years. Preliminary results show Labour would hold 64 seats out of 120. National slumped to hold just 35 seats, while ACT and Green improved to 10 seats each, and Maori gained one. Ardern wants to form a government within two to three weeks and plans to talk to the Green Party in the coming days.

The BusinessNZ manufacturing purchasing managers' index (PMI) moved up to 54.0 in September from 51.0 in August. While was a good outcome, the index remains below the July level of 59.0, which was prior to lockdowns in Auckland.

United States: Retail sales rose by 1.9% from the prior month, which was well above the consensus median from the market of 0.8%. It follows a 0.6% gain in August. The gain also marked the fifth straight month of retail sales growth, as consumers prepared for further months of working and studying from home by spending on sporting goods, home improvement and furniture.

Consumer spending is the main engine of the US economy, and overall expenditures remain below pre-pandemic levels because outlays on discretionary services have not yet fully recovered.

Industrial production fell 0.6% in September, snapping four months of growth, pointing to a possible slowing in the US economic recovery. Industrial output remains 7.1% below where it was in February, before the pandemic hit, the Federal Reserve said.

Manufacturing, the biggest component of production, fell 0.3%, after rising 1.2% in August.

Capacity utilisation, a measure of slack in the industrial economy, fell to 71.5% in September from an upwardly revised 72.0% in August.

The American consumer grew a bit more confident in October, the results of the most closely followed gauge for confidence across the country revealed. A preliminary reading for the University of Michigan's consumer confidence index in October improved to a reading of 81.2 after printing at 80.4 in September.

Expectations edged towards the post-2015 range, rising to 78.8 (vs. est. 77.0, prior 75.6), although current conditions faltered at 84.9 (vs. est. 88.5, prior 87.8). University of Michigan did note that slowing employment growth, COVID-19 infections, and the failure to pass further Federal support were

weighing on consumers' concerns.

The Federal Reserve's Bullard was upbeat about prospects for the labour market, expecting it to bounce back quickly as more temporarily furloughed workers return to jobs and the pandemic is contained.

House Speaker Nancy Pelosi set a 48-hour deadline to agree on a stimulus package that can be passed before the November 3 election, while noting differences remain with the White House. The House speaker and Treasury Secretary Steve Mnuchin talked on Saturday after weeks of ongoing wrangling. The Democrats are pushing for a \$2.2 trillion package, while the administration seeks one of about \$1.8 trillion. Senate Majority Leader Mitch McConnell said the Senate will vote on a narrower \$500 billion bill starting Tuesday and has said Republicans will not back more spending than that.

Today's key data and events:

CH GDP Q3 y/y exp 5.5%, prev 3.2% (1pm)
 CH Industrial Production Sep y/y exp 5.8%, prev 5.6% (1pm)
 CH Retail Sales Sep y/y exp 1.8%, prev 0.5% (1pm)
 CH Surveyed Jobless Rate Sep exp 5.5%, prev 5.6% (1pm)
 UK Rightmove House Prices Oct prev 0.2% (10:01am)
 US NAHB Housing Market Index Oct exp 83, prev 83 (1am)
 US Federal Reserve's Bostic Speech (5:20am)
 US Federal Reserve's Harker Speech (6am)

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

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

Economist

Felipe Pelaio
felipe.pelaio@banksa.com.au
(02) 8253 0898

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