

Morning Report

Thursday, 1 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,815.9	-2.3%	Last		Overnight Chg			Australia		
US Dow Jones	27,781.7	1.2%	10 yr bond	99.13	-0.03			90 day BBSW	0.09	0.00
Japan Nikkei	23,185.1	-1.5%	3 yr bond	99.78	-0.01			2 year bond	0.16	0.00
China Shanghai	3,372.6	-0.2%	3 mth bill rate	99.91	-0.02			3 year bond	0.16	0.00
German DAX	12,760.7	-0.5%	SPI 200	5,813.0	11			3 year swap	0.14	0.00
UK FTSE100	5,866.1	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.79	0.01
Commodities (close & change)*			TWI	60.6	-	-	60.7	United States		
CRB Index	148.5	1.7	AUD/USD	0.7132	0.7175	0.7100	0.7158	3-month T Bill	0.09	0.00
Gold	1,888.2	-9.8	AUD/JPY	75.37	75.71	74.87	75.49	2 year bond	0.13	0.00
Copper	6,676.0	6636.7	AUD/GBP	0.5548	0.5559	0.5534	0.5540	10 year bond	0.68	0.03
Oil (WTI)	39.9	0.6	AUD/NZD	1.0819	1.0850	1.0788	1.0824	Other (10 year yields)		
Coal (thermal)	64.3	-0.2	AUD/EUR	0.6073	0.6123	0.6055	0.6106	Germany	-0.52	0.02
Coal (coking)	143.1	-2.9	AUD/CNH	4.8609	4.8770	4.8417	4.8553	Japan	0.02	0.00
Iron Ore	117.1	3.8	USD Index	93.9	94.2	93.7	93.9	UK	0.23	0.05

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Investor appetites for risk and global share markets improved overnight, underpinned by strong US economic data and hopes for further stimulus from the US government.

In Australia – attention today turns to a pre-Budget address from the Prime Minister.

Share Markets: US share markets finished the overnight session strongly, supported by US Treasury Secretary Mnuchin's comments regarding government stimulus. The Dow Jones closed 329 points higher (or +1.2%) and the S&P 500 index added 28 points (or +0.8%).

Interest Rates: The improvement in risk appetites and equities overnight led to higher bond yields. The US 10-year bond yield rose 3 basis points, although the 2-year bond yield finished the overnight session unchanged.

The Australian 3-year government bond yield (futures) rose from 0.21% to 0.23% and the 10-year yield rose from 0.84% to 0.89%.

Foreign Exchange: The Australian dollar appreciated overnight, as the US dollar encountered a sell off against the major currencies. The AUD/USD has been trending higher since September 25. Since this time, the AUD has moved from near the 0.7000 handle to a high of 0.7180 overnight. The AUD/USD is likely to try and advance further in the very near term, stretching to at least

0.7250.

Commodities: Oil advanced amid optimism over shrinking US crude supplies and stimulus hopes. Nationwide inventories fell 1.98 million barrels last week to the lowest level since April of this year.

COVID-19: There were 17 new cases nationally yesterday. Victoria recorded 13 new cases. NSW recorded 4 cases but these were returned travellers in hotel quarantine. It is NSW's fifth consecutive day without community transmission.

There has been a partial reopening of borders between NSW and QLD. From 1am overnight, northern NSW residents from 41 postcodes will be allowed to travel to QLD. It includes Byron Bay, Lismore, Ballina and Richmond Valley. Queenslanders will also be able to travel to northern NSW.

The WA government has called for tighter rules for foreign ships as it deals with a coronavirus cluster on an iron ore bulk carrier off the coast of Pilbara.

Singapore has announced that it will lift border restrictions for travellers from Australia, excluding those from Victoria, from October 8. Travellers will need to undergo a COVID-19 test upon arrival at the airport and isolate until they receive a result.

On the vaccine front, European regulators are set to start an accelerated review of the candidate from

AstraZeneca and Oxford University and BioNTech and Pfizer said its vaccine Phase 1 trial in Germany showed a strong immune response to the virus.

Australia: Prime Minister Morrison is scheduled to deliver a pre-Budget address today at the National Press Club at 12:30pm. It is widely expected that Morrison in this speech will reveal a \$1.5 billion boost to the manufacturing industry. Media reports suggest the Commonwealth will provide grants on the basis that businesses will co-invest with grants focussed on 6 key areas: medical products, space technology, resources & critical minerals processing, defence, clean energy & recycling, and food & beverages.

There was a slight pull-back in building approvals in August following a surge in July. Approvals were down 1.6% following a 12.2% rise in July. Over the year to August, approvals are up just 0.6%, but activity last year was also subdued. The general trend decline in housing approvals has been in play since late 2017.

The aggregate figures hide developments within the sector. Private-sector housing approvals (as opposed to approvals for apartments) rose 4.8% in August after an 8.6% lift in July.

On a State basis, there were massive variations. Tasmania (-26.2%) and NSW (-14.2%) saw sharp declines. Approvals also fell in SA (-4.8%). At the other end of the scale, WA reported a 33.8% increase in approvals while QLD was up 8.1%. Approvals in Victoria rose 1.8%.

The housing sector faces several headwinds. Economic uncertainty, rising unemployment, and abruptly weaker population growth are keeping the sector nervous. On the other hand, government incentives and historically low interest rates are attracting interest

August saw no growth in credit provided to the private sector. Credit had fallen 0.1% in each of the three previous months and is now up only 2.2% over the year.

Credit extended for housing rose 0.2% in the month, but business credit fell 0.4% and credit for other personal was down 1.1%.

High levels of unemployment will constrain credit growth in the near term. Budget stimulus and changes to lending rules could provide some upside over the next year.

China: The official purchasing managers' indexes (PMIs) for composite, manufacturing and services showed an improvement in September. The

composite PMI rose 0.6 points to 55.1. The manufacturing PMI rose half a point to 51.5 and the services PMI rose 0.7 points to 55.9. All three readings are above 50.0, suggesting an expansion in activity in the months ahead in these sectors. It also underlines the strong economic recovery underway in China.

The Caixin (or unofficial) PMI for manufacturing, which focuses on smaller and private firms, bucked the trend and showed a slight decline in September to 53.0, from 53.1 in August.

United Kingdom: The UK economy shrank marginally less than initially estimated in the second quarter of this year, but still recorded its largest fall on record and the worst contraction among major economies. Revised data show output in the UK dropped 19.8% in Q2 compared with the previous quarter. It compares with the initial estimate of a decline of 20.4%.

In other data, house prices rose by 0.9% in September, taking the annual growth rate up to 5.0%. It is the fastest annual rate since December of 2016. The temporary stamp-duty holiday for the first £500k of property sales is helping to strengthen the momentum in the housing market.

New Zealand: Building permits rose 0.3% in August, after a fall of 4.5% in July. Consents in stand-alone and medium-density residential developments underpinned the increase in the month. Non-residential (or commercial) property consents continued to trend lower.

House prices rose at an annual rate of 7.6% in September, up from 7.1% in August, according to data from CoreLogic published overnight.

The final report for business confidence in September revealed a reading of -28.5, which is a slight deterioration from the preliminary reading of -26.0. However, it is still a large improvement from the reading of -41.8 in August. The key concerns highlighted in the report are ongoing border closures and rising job losses.

United States: The final report for GDP in Q2 placed the record-sized decline at 31.4%, a slight improvement from the preliminary estimate of a drop of 31.7%. GDP is expected to show a big snap-back rebound in Q3 with median expectations among US economists at a record 25% annual clip. Even a rebound of that size, however, will leave the US economy in a shrunken state compared with before the advent of the pandemic. A full recovery could take years.

The pace of private-sector job growth in September

was the strongest in 3 months. Private-sector jobs rose by 749k, which is above the Bloomberg median forecast of a gain of 649k. Job gains in August were also revised higher to 481k (previously reported as 428k). This report precedes the official labour market report published by the government on Friday. The Bloomberg median expectation is for employment gains of 868k in September with the unemployment rate edging slightly lower to 8.2%.

The Chicago PMI unexpectedly jumped to a 21-month high of 62.4 in September, from 51.2 in August. New orders rose to its highest level since late 2018 and production, employment and output also rose sharply.

The pending home sales index surged 8.8% in August to a record high of 132.8, after a strong gain of 5.9% in July. On a year ago, pending home sales rose 20.5%. Whilst unemployment is elevated, low interest rates are spurring demand for housing, especially in low-density areas.

US Treasury Secretary Steven Mnuchin and House Leader Nancy Pelosi met to discuss fiscal stimulus. Mnuchin said he Pelosi "made a lot of progress in a lot of areas" and Pelosi indicated talks with Mnuchin will continue. The continuing discussion helped market sentiment, although Senate Leader McConnell said late in the session that the two sides were far apart.

The US Federal Reserve extended its constraints on dividend payouts and share buybacks for the biggest US banks through the end of the year. According to the Fed statement, the limits are being continued due to ongoing "economic uncertainty" from the pandemic and the need for the banking industry to preserve capital.

The first of three US Presidential Election debates took place yesterday. Media reports suggest it was widely viewed as a poorly chaired and chaotic debate with no real attempt at addressing the major issues facing US from either side. After the debate, the Presidential Debate Commission stepped in to announce it will soon make changes to the format "to ensure a more orderly discussion of the issues."

Today's key data and events:

AU AiG Manufacturing PMI Sep prev 49.3 (8:30am)
 AU CoreLogic House Prices Sep exp -0.3% prev -0.5% (10am)
 AU Job Vacancies Aug prev -43.2% (11:30am)
 AU Prime Minister Pre-Budget Address (12:30pm)
 EZ Markit Mfg PMI Sep Final exp 53.7 prev 53.7 (6pm)
 UK Markit Mfg PMI Sep Final exp 54.3 prev 54.3 (6:30pm)
 EZ Producer Price Index Aug exp 0.1% prev 0.6% (7pm)
 EZ Unemployment Rate Sep exp 8.1% prev 7.9% (7pm)
 US Challenger Job Cuts Sep y/y prev 116.5% (9:30pm)
 US Initial Jobless Claims w/e Sep 26 exp 850k prev 870k (10:30pm)
 US Personal Spending Aug exp -2.5% prev 0.4% (10:30pm)
 US Personal Income Aug exp 0.8% prev 1.9% (10:30pm)
 US PCE Core Deflator Aug y/y exp 1.4% prev 1.3% (10:30pm)
 US Markit Mfg PMI Sep Final exp 53.5 prev 53.5 (11:45pm)
 US Construction Spending Aug exp 0.7% prev 0.1% (12am)
 US ISM Manufacturing Index Sep exp 56.4 prev 56.0 (12am)

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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