

Morning Report

Thursday, 20 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	6,167.6	0.7%	Last		Overnight Chg			Australia			
US Dow Jones	27,692.9	-0.3%	10 yr bond	99.11	-0.01			90 day BBSW	0.10	0.00	
Japan Nikkei	23,110.6	0.3%	3 yr bond	99.70	0.00			2 year bond	0.27	0.00	
China Shanghai	3,572.3	-1.2%	3 mth bill rate	99.90	0.00			3 year bond	0.26	0.00	
German DAX	12,977.3	0.7%	SPI 200	6,102.0		-15			3 year swap	0.21	0.00
UK FTSE100	6,112.0	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	0.00	
Commodities (close & change)*			TWI	62.0	-	-	62.0	United States			
CRB Index	152.0	0.3	AUD/USD	0.7242	0.7276	0.7179	0.7184	3-month T Bill	0.09	0.00	
Gold	1,929.0	-73.5	AUD/JPY	76.33	76.68	76.13	76.19	2 year bond	0.14	0.00	
Copper	6,691.8	120.8	AUD/GBP	0.5470	0.5506	0.5464	0.5480	10 year bond	0.68	0.01	
Oil (WTI)	42.9	0.0	AUD/NZD	1.0972	1.0981	1.0930	1.0951	Other (10 year yields)			
Coal (thermal)	51.5	-0.6	AUD/EUR	0.6067	0.6092	0.6062	0.6067	Germany	-0.47	-0.01	
Coal (coking)	111.4	0.9	AUD/CNH	5.0027	5.0227	4.9691	4.9724	Japan	0.03	-0.01	
Iron Ore	124.3	1.6	USD Index	92.3	93.1	92.2	93.0	UK	0.24	0.02	

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: The Federal Reserve's FOMC minutes were the main event overnight. Although it presented a need for accommodative monetary policy, FOMC members were reluctant to adopt a treasury yield target in the near-term. Share markets fell, while bond yields and the US dollar rose.

Share Markets: The run of positive sentiment gave way, after the Fed's minutes expressed concern about the outlook. The Nasdaq led the retreat, falling 0.6% yesterday. Tech stocks have been a major driver of the recent rally. The Dow fell 0.3% while the S&P500 fell 0.4%. It followed record closing highs reached by S&P500 and the Nasdaq in the previous session. It would be unsurprising to see some further caution in markets reaching new highs given the uncertainty regarding the outlook, although an easing in the growth rate of new COVID cases is encouraging.

Interest Rates: Yields on US treasuries lifted, particularly at the longer end of the curve. US 10-year treasury yields rose 1 basis point to 0.68% and the 30-year treasury yield rose 3 basis points to 1.42%, likely following the Fed minutes. The movement upwards in yields suggests there were hopes that the Fed would be more willing to adopt yield curve control (setting a bond yield target).

There continues to be little movement in Australian bond yields. Aussie 10-year yields held steady at

0.87% yesterday.

Foreign Exchange: The US dollar index rose from a two-year low on the combination of the fall in risk appetite, the Fed's concerns about the growth outlook and the limited willingness to taking further monetary policy action. Other majors conversely fell, including euro, sterling, and yen. The Australian dollar tumbled from a high of 72.76 US cents to settle at 71.84 US cents this morning.

Commodities: Oil prices were broadly unchanged as a fall in US stockpiles were offset by concerns over the outlook for demand.

Gold prices slumped as the US dollar spiked, reflecting the unwillingness to set a treasury yield target by the Fed.

COVID-19: The Australian Department of Health reported 228 new cases yesterday. Of the 228 cases, there were 216 from Victoria, 7 from NSW and 1 from Queensland.

Worldwide cases stood at 243,084 yesterday and appear to be stabilising. New US cases stood at 44,519 but the rate of growth has slowed.

Despite a rising number of cases in France, President Macron said that "we cannot shut down the country, because the collateral damage of confinement is considerable".

Australia: Economic activity remains deep in contraction, but appears to have bottomed out in

April, according to the latest Westpac-MI Leading Index. The index, which indicates the likely pace of economic activity relative to trend three to nine months in the future rose slightly from -4.43% in June to -4.37% in July.

The leading index has been principally supported by two components: US industrial production and hours worked. Gains in these components have been offset by weakness in dwelling approvals and various measures of consumer confidence.

United Kingdom: Inflation rebounded more than expected by markets, lifting 0.4% in July. It took the annual rate up from 0.6% in June to 1.0% in July. Core inflation also lifted from 1.4% to 1.8%. The acceleration in inflation reflected the rebound in activity after easing of restrictions and a bounce in fuel prices. Spare capacity remaining in the economy suggests that the pickup in inflation is unlikely to be sustained and that price pressures will remain subdued over the medium term.

New Zealand: Producer prices contracted in Q2 as strict lockdown measures brought economic activity to a halt. Input prices fell 1.0% over the quarter following a -0.3% fall in Q1 while output prices fell -0.3% in Q2 after rising 0.1% previously.

United States: The Federal Reserve's FOMC minutes from the meeting July 28-29 was released early this morning. Policymakers presented a cautious view on the outlook and expressed concern about the recovery. It noted that the rebound in employment was slowing and further "substantial improvement" depended on a "broad and sustained" reopening of business activity. In addition, "several participants suggested that additional accommodation could be required to promote economic recovery and return inflation to the Committee's 2% objective". In discussing potential policy options, policymakers considered forward guidance – that is, a promise to keep interest rates low until certain economic benchmarks are met or until a particular future date. On yield curve control, setting targets for yields on US treasuries, "many participants" thought that they were not warranted but thought that it "should remain an option". Overall, it paints a sobering picture of FOMC members being concerned about the outlook and a need for more accommodative policy support but presented little sign of providing additional concrete policy action to add to that support. That said, there would be limitations on the effectiveness of any additional policy measures and represents the difficulty for central banks with official interest rates at zero.

A number of Fed officials also spoke last night. Richmond Fed President Barkin was concerned about the uncertainty in the economy, which required better control over the coronavirus, and more government support. In contrast, St. Louis Fed President Bullard was more upbeat on the outlook and pointed out that most data had "surprised to the upside" and he thought that "we are going to do somewhat better". Bullard also thought that "Wall Street has called this about right so far" and that households and businesses would adjust to the conditions with COVID-19.

Today's key data and events:

CH 1-Year Prime Rate exp 3.85% prev 3.85% (11:30am)

CH 5-Year Prime Rate exp 4.65% prev 4.65% (11:30am)

EZ Construction Output Jun prev 27.9% (7pm)

UK CBI Trends Total Orders Aug exp -34 prev -46 (8pm)

EZ ECB July Monetary Policy Meeting Account (9:30pm)

US Philadelphia Fed Business Outlook Aug exp 21.0 prev 24.1 (10:30pm)

US Initial Jobless Claims w/e 1 Aug exp 920k prev 963k (10:30pm)

US Continuing Claims w/e 1 Aug exp 15000k prev 15486k (10:30pm)

US Leading Index Jul exp 1.1% prev 2% (12am)

US Fed's Daly Speaks (3am)

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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