

Morning Report

Monday, 20 July 2020

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 6,033.6 | 0.4% | Last | | Overnight Chg | | | Australia | | |
| US Dow Jones | 26,672.0 | -0.2% | 10 yr bond | 99.11 | -0.01 | | | 90 day BBSW | 0.10 | 0.00 |
| Japan Nikkei | 22,696.4 | -0.3% | 3 yr bond | 99.70 | -0.01 | | | 2 year bond | 0.26 | 0.00 |
| China Shanghai | 3,368.9 | 0.1% | 3 mth bill rate | 99.89 | 0.00 | | | 3 year bond | 0.27 | -0.01 |
| German DAX | 12,919.6 | 0.3% | SPI 200 | 6,004.0 | 2 | | | 3 year swap | 0.21 | 0.00 |
| UK FTSE100 | 6,290.3 | 0.6% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 0.87 | -0.01 |
| Commodities (close & change)* | | | TWI | 60.8 | - | - | 60.7 | United States | | |
| CRB Index | 140.8 | 0.0 | AUD/USD | 0.6970 | 0.7005 | 0.6969 | 0.6987 | 3-month T Bill | 0.10 | -0.01 |
| Gold | 1,810.4 | 0.1 | AUD/JPY | 74.77 | 74.97 | 74.76 | 74.87 | 2 year bond | 0.15 | 0.00 |
| Copper | 6,455.0 | 14.3 | AUD/GBP | 0.5551 | 0.5576 | 0.5550 | 0.5564 | 10 year bond | 0.63 | 0.01 |
| Oil (WTI) | 40.6 | -0.2 | AUD/NZD | 1.0664 | 1.0680 | 1.0660 | 1.0669 | Other (10 year yields) | | |
| Coal (thermal) | 57.8 | -0.1 | AUD/EUR | 0.6124 | 0.6140 | 0.6102 | 0.6120 | Germany | -0.45 | 0.02 |
| Coal (coking) | 111.0 | -0.9 | AUD/CNH | 4.8759 | 4.8968 | 4.8759 | 4.8851 | Japan | 0.02 | 0.00 |
| Iron Ore | 107.0 | -0.3 | USD Index | 96.3 | 96.3 | 95.9 | 96.0 | UK | 0.16 | 0.02 |

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Australian businesses received an extra injection of stimulus this morning. The Australian Federal government said it is extending and enhancing its guarantee scheme for small and medium businesses. News reports also suggest the JobKeeper scheme will be extended until the end of this year at a reduced rate of over \$1,000 a fortnight for companies that qualify under a new, tighter, eligibility test. But uncertainty about the outlook businesses are facing is rising from growing infections in NSW and ongoing triple-digit new daily infections in Victoria.

Share Markets: The S&P 500 share market index withstood a late session swoon to register its third consecutive weekly gain, as investors digested the week's initial burst of corporate earnings, economic data and coronavirus news. The S&P 500 closed 9 points higher on the day (+0.3%) and 1.2% stronger for the week. The Dow Jones ended up 2.3% firmer for the week, but shed 63 points on Friday (or -0.2%).

The US earnings season kicks into high gear this week. IBM gets the tech ball rolling tonight, followed by Microsoft, Intel, Snap and Texas Instruments. In finance, Blackstone, Amex and Capital One weigh in, as do Swiss banks UBS and Julius Baer. Tesla, Daimler and Hyundai will show how carmakers are doing. On Thursday, all eyes will

be Twitter.

The ASX 200 index on Friday closed 23 points firmer (or +0.4%) and it also ended higher for the week (+1.9%).

Interest Rates: The US 2-year treasury yields ranged between 0.14% and 0.15% and finished unchanged on Friday. The US 10-year yield edged up 1 basis point.

Foreign Exchange: The US dollar index fell 0.4% in Friday night's session. The Australian dollar has been flirting just above the US 70 cent handle in recent trading sessions and Friday was no exception. The AUD rose to a Friday overnight high of 0.7005, but opens this morning back at 0.6980.

Commodities: Commodities were mixed in Friday overnight trade.

COVID-19: On Friday, the NSW state government introduced new restrictions aimed at curbing the spread of COVID-19 effective July 24. Weddings will be limited to 150 people and require all guests to remain seated while funerals will be limited to 100.

Victoria mandated the use of masks in public places in Melbourne and the Mitchell Shire effective from 11:59pm on Wednesday 11 July. Premier Daniel Andrews also extended the state of emergency by one month.

NSW recorded 18 new cases yesterday (with 5

coming from overseas and in hotel quarantine). Victoria recorded 363 new infections.

WA has shut travellers from NSW in an extension of its hard border closer as part of COVID-19 restrictions. It was effective from midnight.

Australia: The Federal government is extending and enhancing its guarantee scheme for small and medium businesses. Banks will now be allowed to provide loans of up to \$1 million for up to 5 years instead of the previous 3-year loans of up to \$250,000. The scheme will start on 1 October 2020 and be available until 30 June 2021.

News reports this morning also suggest JobKeeper will also be extended until 31 December 2020 at a reduced rate of over \$1,000 a fortnight for companies that qualify under a new, tighter, eligibility test.

Casuals will no longer secure a flat rate payment. Instead, casuals and part-time workers will secure a part-time rate of the JobKeeper subsidy.

A new turnover test will also apply to JobKeeper when the current scheme ends on September 27.

Full details of the extended JobKeeper scheme are expected this Thursday when the Federal Treasurer also announces an economic and fiscal update.

New Zealand: The BusinessNZ purchasing managers' index (PMI) rose to 56.3 in June, from 39.8 in May. It is the first reading in expansion (i.e. above 50) since April 2018. A rebound in new orders and production led confidence higher while the employment sub-index picked up to 48.5. The latest reading suggests that business sentiment has arrested the sharp declines registered in April and May and has embarked on the journey to recovery.

Europe: European Union (EU) leaders failed to reach an agreement on a €750 billion stimulus package after three days of discussions in Brussels. Germany's Chancellor, Angela Merkel, and France's President, Emmanuel Macron, on Saturday walked out of a meeting with Dutch Prime Minister Mark Rutte after a dispute over how much of the package should be disbursed as grants and how much as loans. Germany and France are said to have insisted at least €400 billion euros should be handouts. Hawks from northern Europe pushed for a much lower figure.

The final report for consumer prices in June in the eurozone region confirmed inflation rose by 0.8% in June, up from 0.6% a month earlier, and annual inflation edged up to 0.3%.

United States: The widespread resurgence of

COVID-19 caused recent gains in sentiment to be erased. The University of Michigan's consumer sentiment index fell to 73.2 in July, from 78.1 in June. Respondents' view of economic conditions sank to 84.2 from 87.1. The index of consumer expectations posted the biggest fall, to 66.2, from 72.3 in the previous month.

In other data, housing starts jumped 17.3% in June, after a rise of 8.2% in May, as some states reopened, but the pace still lags last year after the massive slowdown in Feb-Apr due to the pandemic. However, it is unclear whether the recovery in housing construction will continue as infections have spiked.

Today's key data and events:

NZ Performance Services Index Jun prev 37.2 (8:30am)
 UK Rightmove House Prices Jul prev -0.2% (9:01am)
 JN Bank of Japan Minutes of June Meeting (9:50am)
 JN Trade Jun exp -¥11.9bn prev -¥833.4bn (9:50am)
 JN Exports Jun y/y exp -24.7% prev -28.3% (9:50am)
 JN Imports Jun y/y exp -17.7% prev -26.2% (9:50am)
 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 Current Account Balance May prev €14.4bn (6pm)

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

Janu Chan

chanj@banksa.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@banksa.com.au

(02) 8254 1316

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