

# Morning Report

Wednesday, 21 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,184.6	-0.7%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	28,308.8	0.4%	10 yr bond	99.23	-0.01			90 day BBSW	0.08	0.00
Japan Nikkei	23,567.0	-0.4%	3 yr bond	99.83	0.00			2 year bond	0.13	-0.01
China Shanghai	3,488.0	0.5%	3 mth bill rate	99.97	0.00			3 year bond	0.13	0.00
German DAX	12,737.0	-0.9%	SPI 200	6,179.0	10			3 year swap	0.10	-0.02
UK FTSE100	5,889.2	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.76	0.01
Commodities (close & change)*			TWI	60.0	-	-	59.6	<b>United States</b>		
CRB Index	152.3	0.7	AUD/USD	0.7069	0.7075	0.7021	0.7048	3-month T Bill	0.09	-0.01
Gold	1,907.8	3.7	AUD/JPY	74.53	74.62	74.21	74.35	2 year bond	0.15	0.00
Copper	6,892.0	120.3	AUD/GBP	0.5459	0.5465	0.5419	0.5443	10 year bond	0.79	0.02
Oil (WTI)	41.5	0.6	AUD/NZD	1.0697	1.0726	1.0692	1.0711	<b>Other (10 year yields)</b>		
Coal (thermal)	60.9	-0.4	AUD/EUR	0.6005	0.6010	0.5943	0.5961	Germany	-0.61	0.02
Coal (coking)	112.3	-1.7	AUD/CNH	4.7216	4.7237	4.6862	4.6970	Japan	0.02	0.00
Iron Ore	115.8	0.4	USD Index	93.4	93.5	93.0	93.1	UK	0.19	0.02

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 optimism grew overnight on hopes of a US stimulus agreement occurring soon. This optimism resulted in stronger equity markets and higher global bond yield, but a weaker US dollar.

**Share Markets:** US share markets bourses jumped on renewed hopes for a US relief package. The S&P 500 index rose 16 points (or +0.5%) while the Dow Jones lifted 113 points (or +0.4%).

**Interest Rates:** US bond yields lifted at the longer end of the curve but stayed steady at the shorter end, leading to a steepening of the yield curve. The 10-year yield lifted 2 basis points to 0.79%.

**Foreign Exchange:** The US dollar index depreciated against most of the currencies in the G-10 basket, including the Australian dollar. The AUD/USD pair rose from an overnight low near 0.7020 to an overnight high of 0.7075 before encountering some selling. Looking at the technicals, the AUD/USD has been under downward pressure since October 9 and is nearing key support at 0.7000. If this support level gives way, the AUD would eye 0.6800 reasonably quickly.

**Commodities:** Most commodity prices rose overnight, reflecting the improvement in risk appetites and investor expectations for a relief package in the US.

**COVID-19:** European leaders continued to intensify

efforts to slow the contagion. UK's Prime Minister Boris Johnson forced Greater Manchester to shut down bars and pubs and Spain is considering a curfew for Madrid.

Meanwhile, Roche's CEO warned it's "completely unrealistic" to expect a vaccine to be widely available this year, adding that most people will only have access to a shot by the second half of 2021.

**Australia:** At its meeting on 6 October, the Reserve Bank of Australia (RBA) outlined possible options should it choose to ease monetary policy in the future. We expect the RBA to ease monetary policy on 3rd November.

The RBA believes that an easing of monetary policy would have 'traction' or 'bite' now that a range of restrictions have been lifted. The fewer the restrictions, the greater the impact from lower interest rates.

The RBA has shifted away from its focus on 'forecast' inflation to 'actual' inflation. Only when 'actual' inflation is sustainably in the RBA's 2-3% range will it consider lifting the cash rate. This further confirms that the cash rate will be on hold for at least three years.

Payroll jobs across Australia have decreased by 4.1% since mid March. Most job losses occurred in Victoria (-7.7%), followed by Tasmania (-4.5%) and

the ACT (-4.3%). Accommodation & food services (-17.4%) and arts & recreation Services (-12.9%) were the weakest sectors, while financial & insurance services (+2.2%) and public administration & safety (+2.4%) created jobs in the period.

**China:** Prices of new homes rose by 0.34% in September, leading to a 4.5% increase year-on-year, the weakest annual reading since early 2018.

**Europe:** The current account surplus widened from €17.0 billion to €19.9 billion.

**United States:** Total housing starts increased 1.9% to an annual rate of 1.42 million units in September. Data for August was revised down to a 1.39 million-unit pace from the previously reported 1.42 million. The broader economic recovery is being led by housing. Record low interest rates and migration to the suburbs and low-density areas are underpinning housing demand.

Single-family homebuilding, the largest share of the housing market, jumped 8.5% to a rate of 1.1 million units last month. But starts for the volatile multi-family housing segment fell 16.3% to a pace of 307k units.

House Speaker Nancy Pelosi sounded cautiously optimistic overnight about reaching a stimulus deal with Treasury Secretary Steve Mnuchin. A compromise bill is being written ahead of more talks between the House Speaker and the Treasury Secretary. Pelosi added that the White House has agreed to a strategy designed to "crush the virus" and the two sides are "in range" on health care provisions. But bumps remain, and legislation would need to be written by the end of this week to get it to Donald Trump next week.

#### Today's key data and events:

AU Westpac Leading Index Sep, prev 0.5% (10:30am)  
AU Retail Trade Preliminary Oct prev -4.0% (11:30am)  
NZ Credit Card Spending Sep prev -5.8% (1pm)  
UK CPI Sep exp 0.5%, prev -0.4% (5pm)  
UK House Price Index Aug y/y exp 3.0% prev 2.3% (7:30pm)  
US Federal Reserve Beige Book (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.

**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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