

# Morning Report

Friday, 22 January 2021

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |             |                      |         | Interest rates (close & change) |       |       |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|-------|-------|
| S&P/ASX 200                              | 6,824    | 0.8%  |  |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |       |       |
| US Dow Jones                             | 31,174   | 0.0%  | 10 yr bond                               | 98.89   |             | -0.03                |         | 90 day BBSW                     | 0.01  | 0.00  |
| Japan Nikkei                             | 28,757   | 0.8%  | 3 yr bond                                | 99.82   |             | 0.00                 |         | 2 year bond                     | 0.10  | 0.00  |
| China Shanghai                           | 3,796    | 1.1%  | 3 mth bill rate                          | 99.99   |             | 0.00                 |         | 3 year bond                     | 0.11  | 0.00  |
| German DAX                               | 13,907   | -0.1% | SPI 200                                  | 6,753.0 |             | -19                  |         | 3 year swap                     | 0.15  | 0.00  |
| UK FTSE100                               | 6,715    | -0.4% | FX Last 24 hrs                           | Open    | High        | Low                  | Current | 10 year bond                    | 1.07  | -0.02 |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 63.5    | -           | -                    | 63.8    | <b>United States</b>            |       |       |
| CRB Index                                | 175.2    | 0.0   | AUD/USD                                  | 0.7746  | 0.7782      | 0.7742               | 0.7764  | 3-month T Bill                  | 0.08  | 0.00  |
| Gold                                     | 1,869.42 | -2.4  | AUD/JPY                                  | 80.19   | 80.52       | 80.17                | 80.35   | 2 year bond                     | 0.12  | 0.00  |
| Copper                                   | 8,022.25 | -24.3 | AUD/GBP                                  | 0.5673  | 0.5684      | 0.5647               | 0.5652  | 10 year bond                    | 1.10  | 0.02  |
| Oil (WTI)                                | 53.04    | -0.3  | AUD/NZD                                  | 1.0804  | 1.0808      | 1.0766               | 1.0780  | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                           | 83.40    | -0.3  | AUD/EUR                                  | 0.6398  | 0.6411      | 0.6376               | 0.6380  | Germany                         | -0.50 | 0.03  |
| Coal (coking)                            | 141.00   | 4.8   | AUD/CNH                                  | 5.0049  | 5.0272      | 5.0038               | 5.0185  | Japan                           | 0.04  | -0.01 |
| Iron Ore                                 | 167.60   | 1.6   | USD Index                                | 90.5    | 90.5        | 90.0                 | 90.1    | UK                              | 0.33  | 0.03  |

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:** The batch of US economic data overnight beat market expectations and helped lift investor sentiment about the outlook. The major US share markets recorded or stayed near all-time highs and the US bond curve steepened.

**Share Markets:** The US S&P 500 share market index closed at a record high overnight while the Dow Jones stalled near an all-time high. Tech shares continued their march higher.

The S&P 500 index added 9 points (or +0.2%) and the Dow Jones slide 12 points (or 0.0%). The Nasdaq closed 74 points (or +0.6%) higher at a new peak.

**Interest Rates:** The US yield curve steepened slightly overnight. The US 2-year bond yield closed unchanged from the previous session and the 10-year yield lifted by 2 basis points to 1.10%.

**Foreign Exchange:** The US dollar index was rangebound. The Australian dollar also stuck to a trading range against the US dollar of around 0.7740-0.7780. The AUD has been consolidating in a wider range of 0.7740-0.7780 since early January. We expect the AUD to continue to march higher in coming months.

**Commodities:** Commodity prices were mixed overnight. Oil prices and gold fell.

**COVID-19:** US President Joe Biden's top medical adviser on COVID-19, Dr Anthony Fauci, has announced renewed US support for the World

Health Organisation (WHO). Fauci also said the US will join Covax, the vaccine-collaboration group seeking to deploy shots globally.

**Australia:** In December, 50.0k jobs were created. This followed the creation of 180.4k jobs in October and 90.0k in November. The unemployment rate fell from 6.8% in November to 6.6% in December.

The level of employment in Australia is still 0.7% below its pre-COVID-19 level in February of 2020, representing the loss of 93.1k jobs. While employment grew 0.4% in December, the number of hours worked rose only 0.1%.

Victoria and Queensland led the charge in jobs growth, however, NSW and South Australia reported job losses in December. Queensland has the highest unemployment rate among the States at 7.5% while Western Australia has the lowest at 6.2%.

**Europe:** The European Central Bank (ECB) met overnight. The ECB left policy settings unchanged. New details about how the ECB defines its recently added objective of "favourable financing conditions" were set out last night. ECB President Lagarde said that the ECB will decide how much to spend on its emergency bond-buying programme by checking if bank lending rates, corporate credit conditions and government bond yields are favourable enough to boost demand and inflation.

The announcement came six weeks after the ECB expanded its emergency bond-buying programme to €1.85 trillion and extended it well into next year in response to a resurgence in COVID-19 infections. Lagarde also added that a decline in output in the fourth quarter will travel into the first quarter of this year, making a double-dip recession likely. However, Lagarde said the downside risks to the outlook are less pronounced.

**United States:** US President Joe Biden remains set to issue a set of executive orders to tackle the pandemic and reverse many of Donald Trump's policies. The new president wants to overhaul virus testing, stabilise the medical supply chain and boost the government's ability to distribute vaccines. Overnight reports suggested top economic adviser Brian Deese plans to meet with lawmakers next week on the administration's \$1.9 trillion stimulus plan.

Initial jobless claims fell by more than expected last week and the previous week's increase was revised down. New filings came in at 900k versus consensus expectations of 935k. The previous week's outcome was revised lower to 926k. These figures reveal a small improvement in the labour market. However, the figures are still elevated, reflecting the intensity of the damage that the virus has inflicted on the US labour market. Almost 16 million Americans continue to receive some form of unemployment assistance.

Manufacturing conditions in the Philadelphia region improved significantly in January. The Philadelphia Fed manufacturing index rose to 26.5 in January, from a revised 9.1 in December, beating market expectations for a reading of 12.0 and reaching its best level in nearly a year.

Homebuilding and building permits surged in December, as historically low mortgage rates supported housing demand. Housing starts jumped 5.8% to an annual rate of 1.67 million units last month. It was well above consensus expectations for an outcome of 1.56 million units. On a year ago, housing starts grew 5.2%. Meanwhile, building permits accelerated by 4.5% in the month and by 4.9% over the twelve months.

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

NZ BusinessNZ Mfg PMI Dec prev 55.3 (8:30am)  
 NZ CPI Q4 q/q exp 0.2% prev 0.7% (8:45am)  
 EZ Markit Services PMI Jan exp 44.5 prev 46.4 (8:00pm)  
 UK Retail Sales Dec exp 1.3% prev -3.8% (6:00pm)  
 UK Markit Manuf. PMI Jan exp 53.6 prev 57.5 (8:30pm)  
 US Markit Manuf. PMI Jan exp 56.5 prev 57.1 (1:45am)  
 US Markit Services PMI Jan exp 53.4 prev 54.8 (1:45am)  
 US Existing Home Sales Dec exp -2.1% prev -2.5% (2:00am)

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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