

Morning Report

Wednesday, 22 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,156.3	2.6%	Last		Overnight Chg			Australia		
US Dow Jones	26,840.4	0.6%	10 yr bond	99.12	0.00			90 day BBSW	0.10	0.00
Japan Nikkei	22,884.2	0.7%	3 yr bond	99.69	0.00			2 year bond	0.26	0.00
China Shanghai	3,480.8	0.2%	3 mth bill rate	99.89	0.00			3 year bond	0.27	0.00
German DAX	13,171.8	1.0%	SPI 200	6,074.0	-64			3 year swap	0.21	0.00
UK FTSE100	6,269.7	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.86	-0.03
Commodities (close & change)*			TWI	60.7	-	-	61.1	United States		
CRB Index	142.5	1.8	AUD/USD	0.7016	0.7147	0.7015	0.7133	3-month T Bill	0.11	0.00
Gold	1,817.8	7.3	AUD/JPY	75.24	76.32	75.21	76.17	2 year bond	0.14	-0.01
Copper	6,493.3	38.3	AUD/GBP	0.5543	0.5611	0.5538	0.5605	10 year bond	0.60	-0.01
Oil (WTI)	42.0	1.2	AUD/NZD	1.0670	1.0755	1.0668	1.0740	Other (10 year yields)		
Coal (thermal)	55.9	0.4	AUD/EUR	0.6131	0.6205	0.6126	0.6185	Germany	-0.46	0.00
Coal (coking)	110.5	-0.4	AUD/CNH	4.9038	4.9818	4.9004	4.9720	Japan	0.03	-0.01
Iron Ore	108.1	2.1	USD Index	95.8	95.9	95.0	95.2	UK	0.14	-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: Policy developments drove market sentiment overnight. EU leaders finally agreed on the terms of a historic stimulus package while US lawmakers continued to discuss a package to replace the assistance due to expire.

Stocks rose modestly and it was one-way traffic higher for the Australian dollar.

Share Markets: Most equity bourses eked out gains overnight, although momentum faded late in the session. The S&P 500 rose for the third straight day, up 0.2% and the Dow Jones rose 0.6%.

Sentiment was buoyed after EU leaders finally came to an agreement on a massive stimulus package and hopes mounted for another support package in the US. Cyclical stocks, including energy and financial companies, were the best performers. Senate Majority Leader Mitch McConnell poured cold water on some of those gains after he commented that a stimulus deal was unlikely to be reached before the current batch of support runs out.

The ASX 200 had its best day in more than a month yesterday, rising 2.6%. Various policy announcements boosted confidence, primarily the extension of JobKeeper.

Interest Rates: Bond yields fell marginally overnight. The US 10-year yield edged lower by 1 basis point to 0.60% and the rate on the 2-year

bond fell to 0.14%.

The Australian yield curve flattened, with the 10-year yield down 3 basis points to 0.86% while the 3-year bond was unchanged at 0.26%.

Foreign Exchange: The US dollar weakened across the board. The US dollar index fell to 95.2 this morning, led by gains in the euro, which rose to an 18-month high after a massive stimulus package improved the economic prospects of the bloc. The euro is at US\$1.1531 this morning.

It was also a bumper night for the Australian dollar, which rallied to US\$0.7133. Trading was in one direction for the AUD as it broke out of the upper end of the range it has been in for the past few months.

Commodities: Oil prices rose after a €750 billion stimulus deal in the EU promised to pump up demand. WTI futures rose US\$1.2 per barrel to US\$42.0.

COVID-19: The World Health Organisation (WHO) reported 213,637 new cases yesterday, close to the record high levels seen over the weekend. The US remains an area of major concern. Cases in California surged past 400,000, although the number of hospitalisations fell slightly.

There were 388 new cases reported in Australia yesterday, according to the Department of Health.

Victoria accounted for 374 new cases and NSW recorded 13 new cases. Victoria's mandatory face mask regulations come into force at 11:59pm tonight.

Australia: The Government announced amendments to its key JobKeeper policy yesterday. JobKeeper will be extended for 6 months from 27 Sep 2020 to 28 Mar 2021. The extended JobKeeper beyond September has been dubbed JobKeeper 2.0. The JobKeeper payment will be cut from \$1,500 per fortnight and move to a two-tiered rate. Full-time employees on JobKeeper will receive \$1,200 from 28 Sep 2020 to 3 Jan 2021 and then receive \$1,000 per fortnight from 4 Jan 2021 to 28 Mar 2021.

Part-time employees on JobKeeper will receive \$750 per fortnight from 28 Sep 2020 to 3 Jan 2021 and then receive \$650 per fortnight from 4 Jan 2021 to 28 Mar 2021.

Eligibility for the new JobKeeper will tighten. From 28 Sep 2020, eligible businesses will need to show that revenue declined in Q2 and Q3 of 2020. From 4 Jan 2021, businesses will need to show that revenue declined in each of the final 3 quarters of 2020.

Yesterday, the Reserve Bank (RBA) also released the minutes of its policy meeting earlier this month and RBA Governor Lowe gave a speech to the Anika Foundation. Governor Lowe indicated that the RBA was likely to retain its current monetary policy measures for now. However, he indicated that if conditions were to deteriorate, it would favour a reconfiguration of the package deployed in March. Lowe ruled out negative rates. Policy measures could entail lowering interest rates to 0.10%, changing the term funding facility or purchasing a specific quantity of bonds.

The RBA highlighted that one of the keys to economic recovery, including in the jobs market, is confidence. Until confidence returns, fiscal and monetary policy can only do so much.

New Zealand: Credit card spending surged another 14.0% in June after a revised 59.4% increase in May, pointing to further recovery in consumer spending after lockdown in April.

Japan: The rate of national inflation was unchanged at an annual rate of 0.1% in June. Excluding fresh food, inflation was no longer in decline, edging up from -0.2% in May to a flat result in June. It was the first time prices did not decline on an annual basis in three months. It provides some encouragement that Japan is not re-entering an extended period of deflation. Economic activity is restarting after

COVID-19 triggered a state of emergency, but there remain concerns about the outlook.

Europe: A deal has been reached among EU leaders after a four-day summit for a massive €750 billion recovery package. The package includes €390 billion of grants to member states hardest hit by the pandemic and will most likely benefit Italy and Spain. Low-interest rate loans will also be available worth €360 bn.

United Kingdom: The UK government borrowed a record £128 billion in the first three months of the UK 2020-21 financial year (April-June). It was more than double the amount borrowed in the entire 2019-20 financial year. Excluding state-owned banks, public borrowing rose £35.5 billion in the month of June. Like many economies around the world, the UK government has borrowed extensively to fund job-support programs and stimulus packages to combat the economic impact of the COVID-19 pandemic.

United States: The Chicago Fed National Activity Index rose to 4.11 in June from 3.50 in May. The pick up in activity was led by improvements in production and employment indicators. More broadly, 54 of the 85 monthly individual indicators made positive contributors to the index, suggesting that economic activity continued to benefit from the reopening of many parts of the economy.

Negotiations continued in congress overnight as US lawmakers seek an agreement on a further stimulus package to replace the assistance package due to expire in two weeks. Senate Majority Leader Mitch McConnell said Republicans were about to unveil a new coronavirus bill worth more than US\$1 trillion. That bill is set to include \$105 billion for schools and small businesses, as well as direct payments to households and funding for health costs.

Democrats are proposing US\$175 billion to be spent on schools to help them cope through the pandemic amid an increasing likelihood of further lockdowns in some States.

Today's key data and events:

AU Preliminary Retail Sales Jun (11.30am)

AU WBC Leading Index Jun prev 0.2% (10.30am)

JN Jibun Mfg PMI Jul prev 40.1 (10.30am)

JN Jibun Services PMI Jul prev 45.0 (10.30am)

US FHFA House Prices May exp 0.3% prev 0.2% (11.00pm)

US Existing Home Sales Jun exp 21.5% prev -9.7% (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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