Morning Report

Wednesday, 23 September 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,784.1	-0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	27,288.2	0.5%	10 yr bond	99.11		-0.01		90 day BBSW	0.09	0.00
Japan Nikkei	23,360.3	0.2%	3 yr bond	99.74		0.00		2 year bond	0.16	-0.01
China Shanghai	3,431.6	-1.3%	3 mth bill rate	99.92		0.01		3 year bond	0.20	-0.02
German DAX	12,594.4	0.4%	SPI 200	5,831.0		60		3 year swap	0.16	0.00
UK FTSE100	5,829.5	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.83	-0.02
Commodities (close & change)*			TWI	61.9	-	-	61.9	**United States**		
CRB Index	147.5	-0.3	AUD/USD	0.7223	0.7235	0.7155	0.7168	3-month T Bill	0.09	-0.01
Gold	1,900.2	-12.3	AUD/JPY	75.61	75.77	75.12	75.22	2 year bond	0.14	0.00
Copper	6,800.5	90.0	AUD/GBP	0.5636	0.5650	0.5610	0.5629	10 year bond	0.67	0.01
Oil (WTI)	39.8	0.3	AUD/NZD	1.0833	1.0851	1.0796	1.0813	**Other (10 year yields)**		
Coal (thermal)	60.2	0.5	AUD/EUR	0.6136	0.6151	0.6111	0.6123	Germany	-0.51	0.03
Coal (coking)	119.1	0.0	AUD/CNH	4.9064	4.9046	4.8577	4.8617	Japan	0.02	0.00
Iron Ore	114.0	-2.0	USD Index	93.5	94.1	93.5	94.0	UK	0.20	0.05

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: Global equity markets recovered overnight and the US dollar continued to appreciate. There were remarks from several central bank officials overnight also that steered markets.

Share Markets: US share markets finished higher, as buyers emerged from the market sell-off. The Dow Jones rose 140 points (or +0.5%), the S&P 500 index lifted 35 points (or +1.1%) and the Nasdaq ended 184 points firmer (or +1.7%). Share markets recovered from an early dip that was prompted by remarks from the US Federal Reserve Chair, Jerome Powell, suggesting the recovery has a long way to go.

Interest Rates: US bond yields were little changed in overnight trade. The US 2-year yield finished flat and the 10-year bond yield edged 1 basis point higher.

The 3-month dollar Libor rate hit a record low, capping five declines in a row. It fixed 0.075 basis points lower at 0.2225%, surpassing the prior all-time low recorded in May 2014. Massive liquidity support from the US Federal Reserve has driven the rate down from 1.45% in March this year.

Foreign Exchange: The US dollar extended its recent run up overnight, rising from an overnight low of 93.47 to an overnight high of 94.08.

The AUD/USD sold off after a speech delivered by the Reserve Bank's Deputy Governor, Debelle, suggested more stimulus was on the way and the RBA was a little uncomfortable with the level of the Australian dollar. The AUD fell from around 0.7235 before DeBelle spoke to a low of 0.7192 immediately after. The AUD/USD recovered these losses in European overnight trade, but then faced selling pressures again in New York trade. An important support level for the AUD/USD is 0.7150. If this level gives, the AUD/USD is likely to fall a lot further in the near term.

In other currencies, the EUR/USD fell to a two-month low of 1.1692, after the European Central Bank's Executive Board member Panetta said the appreciation of the euro needs to be watched closely. The GBP/USD also fell to a two-month low, of 1.2711, spurred by comments from the Bank of England Governor who spoke overnight.

Commodities: Commodities were mixed overnight.

COVID-19: Victoria recorded 28 new infections yesterday, up from 11 the day before. NSW recorded 2 new cases.

The South Australian government has announced it will reopen its border with NSW from tomorrow provided no community transmission occurs today. The NSW government has also flagged the possibility of opening her state's southern border to regional Victoria.

Australia: The Reserve Bank (RBA) Deputy Governor, Guy Debelle, delivered a speech titled 'The Australian Economy and Monetary Policy'. Debelle described Australia's economic recovery as a "slow grind" and that Australia faces a "gradual and uneven recovery". The language of his speech suggested the RBA was very open and prepared to do more stimulus. It follows the RBA board meeting statement earlier this month, which also suggested the RBA was open to more stimulus.

Debelle discussed several policy options. The favoured options appear to involve cutting the cash rate from 0.25% to 0.10% and cutting the target on the 3-year government bond yield by 15 basis points to around 0.10%. Reducing the rate on Exchange Settlement Funds and the rate on the Term Funding Facility are also possibilities.

Debelle suggested the RBA is a little uncomfortable with the level of the Australian dollar even though he also added it was broadly aligned with fundamentals. Debelle said that "a lower exchange rate would definitely be beneficial for the Australian economy" and that the RBA is "continuing to watch developments in the foreign exchange market carefully".

Payroll jobs fell by 0.4% in the two weeks to September 5, which represents a further deterioration in the number of employees on ATO payroll register. A decline was recorded for both weeks with a fall of 0.3% occurring for the week ended August 29 and a decline of 0.1% for the week ended September 5.

In the month (4 weeks) to September 5, payroll jobs fell 0.7%. The weakness was led by Victoria (-2.1%), NSW (-0.5%) and Qld (-0.3%). Payroll jobs lifted in Tasmania (+0.8%), SA (+0.6%) and WA (+0.4%).

The payrolls data is suggesting some slowing in jobs growth, however, it was a poor guide for the labour force survey in August and could be again.

In terms of pre-COVID levels, weekly payroll jobs and wages data remain 4.5% and 4.3% lower, respectively.

The weekly Roy Morgan survey of consumer confidence showed another improvement for the latest week (week ending September 20). The index rose to 93.5, from 92.4 in the previous week. It is the third consecutive week of improvement. However, the reading is still below 100, suggesting consumers remain pessimistic about the outlook.

Europe: Consumer confidence in September remained lacklustre at -13.9 but beat the median estimate of -14.7.

United Kingdom: The Bank of England (BoE) Governor Andrew Bailey made it clear last night that the BoE was not about to push interest rates below zero in the near future. Bailey said the central bank needed to be sure it could set a negative rate, but that did not mean it was about to use the policy.

The CBI readings are a survey on manufacturers to rate the level of volume for orders expected during the next 3 months. The total orders index improved to -22 in September, from -44 in August, but the results suggest the recovery is tepid.

United States: The US housing market shows no signs of cooling off, after a record-setting month in July. Sales of existing home sales rose by 2.4% to an annualised rate of 6.0 million units. Sales were 10.5% higher compared with a year ago, which is the fastest annual pace since December 2006. Sales are underpinned by very low mortgage rates but are being hampered by a lack of supply. The available houses for sale were down 18.6% on the same time a year ago.

Manufacturing activity in the Richmond Federal Reserve district expanded at a faster pace in September than it did in August. The composite index of the Richmond Fed's survey of manufacturing rose to +21 in September, from +18 in August. The result was driven by stronger new orders and higher employment. Indeed, several manufacturers reported raising wages over the month.

US Federal Reserve Chair, Jerome Powell, and the US Treasury Secretary, Steven Mnuchin, appeared before a House panel overnight. Powell kept up his demand for more fiscal stimulus, but Mnuchin gave little indication that talks between the White House and Congress on another aid package are going anywhere. The Fed chief called for "policy actions taken at all levels of government". The two diverged on whether to lower the minimum loan size for the troubled Main Street Lending Program, with Mnuchin embracing the possibility.

Chicago Federal Reserve President, Charles Evan, said overnight the US economy risks a longer, slower recovery and "recessionary dynamics" if Congress fails to pass a fiscal package to support out-of-work Americans and state and local governments. Evans did not rule out more quantitative easing from the Federal Reserve, but me suggested he did not think it was imminent.

Today's key data and events:

AU Retail Sales Aug Preliminary prev 3.2% (11:30am)
NZ RBNZ Offical Cash Rate exp 0.25% prev 0.25% (12pm)
EZ Markit Mfg PMI Sep exp 51.9 prev 51.7 (6pm)
EZ Markit Services PMI Sep exp 50.6 prev 50.5 (6pm)
EZ Markit Composite PMI Sep exp 51.9 prev 51.9 (6pm)
UK Markit Mfg PMI Sep exp 54.0 prev 55.2 (6:30pm)
UK Markit Services PMI Sep exp 55.9 prev 58.8 (6:30pm)
UK Markit Composite PMI Sep exp 56.1 prev 59.1 (6:30pm)
US FHFA House Price Index Jul exp 0.5% prev 0.9% (11pm)
US Markit Mfg PMI Sep exp 53.5 prev 53.1 (11:45pm)
US Markit Services PMI Sep exp 54.5 prev 55.0 (11:45pm)
US Markit Composite PMI Sep prev 54.6 (11:45pm)

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