

Morning Report

Monday, 24 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,111.2	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	27,930.3	0.7%	10 yr bond	99.11		0.01		90 day BBSW	0.10	0.00
Japan Nikkei	22,920.3	0.2%	3 yr bond	99.70		0.00		2 year bond	0.26	0.00
China Shanghai	3,543.5	0.5%	3 mth bill rate	99.89		-0.01		3 year bond	0.26	0.00
German DAX	12,764.8	-0.5%	SPI 200	6,057.0		-11		3 year swap	0.20	-0.01
UK FTSE100	6,001.9	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	0.03
Commodities (close & change)*			TWI	61.6	-	-	61.7	United States		
CRB Index	150.0	-0.9	AUD/USD	0.7192	0.7216	0.7140	0.7160	3-month T Bill	0.09	-0.01
Gold	1,940.5	-6.8	AUD/JPY	76.09	76.28	75.63	75.77	2 year bond	0.14	0.00
Copper	6,498.8	-111.0	AUD/GBP	0.5442	0.5479	0.5431	0.5474	10 year bond	0.63	-0.02
Oil (WTI)	42.3	-0.5	AUD/NZD	1.1007	1.1033	1.0941	1.0949	Other (10 year yields)		
Coal (thermal)	50.1	-0.4	AUD/EUR	0.6064	0.6092	0.6059	0.6071	Germany	-0.51	-0.01
Coal (coking)	112.0	0.1	AUD/CNH	4.9670	4.9800	4.9444	4.9543	Japan	0.03	0.00
Iron Ore	121.8	-2.1	USD Index	92.7	93.5	92.6	93.2	UK	0.21	-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: A sense of calm prevailed across markets on Friday amid positive US economic data and a stabilisation in new COVID-19 cases in the US. Equity volumes were low.

Share Markets: US equity bourses ended the week positively, although volume was light. Technology and construction company shares led the improvement after US economic data beat expectations. The S&P 500 rose 0.3%, closing at a fresh record high and capping its fourth consecutive weekly gain (up 0.7%). Among other major US indices, the Dow Jones rose 0.7% and the NASDAQ rose 0.4%.

The ASX 200 closed 0.1% lower on Friday, giving up gains recorded earlier in the session. Our local index finished last week 0.3% lower.

Interest Rates: US treasury yields fell slightly on Friday. The 10-year yield was down 2 basis points to 0.63% while the 2-year treasury yield was unchanged at 0.14%.

The Australian 10-year government bond yield rose 3 basis points to 0.88%, trading as high as 0.92% during trade on Friday. The 3-year bond yield remains within the RBA's target range at 0.26%.

Foreign Exchange: The US dollar recovered on Friday, boosted by a contrast in PMI readings between the US and Europe. The US dollar index is

at 93.2 this morning, up from 92.7 on Friday.

The Australian dollar is slightly lower at US\$0.7160, having ranged between a high of US\$0.7216 and a low of US\$0.7140.

Commodities: WTI crude oil prices fell US\$0.5 per barrel to US\$42.5 after investors judged the likely restart in Libyan oil exports and stumble in European economic activity as the greater influence compared with a burgeoning recovery in US economic activity.

Libya's national oil company said it could restart operations after its embattled government announced a ceasefire.

COVID-19: There were 216 new COVID-19 cases reported yesterday by the Department of Health. Victoria accounted for 208 new cases, NSW recorded 4 new cases, 2 were attributed to QLD while SA and WA each recorded 1 new case. Health officials in Victoria and NSW continued to express optimism that outbreaks were being brought under control but warned that continued vigilance is required.

Following the emergence of some new cases last week, the Queensland State government introduced new restrictions for citizens in some areas. Residents in various local government areas have had gathering sizes limited to 10 people, hospitals are being requested to reduce visitors and

aged care facilities have imposed restrictions on visitors and residents leaving the facility. Across the State, gatherings are being restricted to a maximum of 30 people (excluding businesses with COVID Safe plans). The changes came into effect on Saturday.

Globally, the number of fatalities from COVID-19 surpassed 800k yesterday, according to data compiled by Bloomberg. The same data shows the number of cases worldwide has risen above 23 million. New cases have stabilised in the US while cases remain high in the UK, France, Italy and Greece.

Australia: The robust recovery in retail spending continued across all States except Victoria in July. Retail spending rose 3.3% in July, according to preliminary data released by the Australian Bureau of Statistics (ABS). It was the third straight monthly increase following a 2.7% increase in June and a 16.9% surge in May.

Substitution away from services spending is continuing to boost some areas of retailing. However, the elevated level of unemployment and falling household incomes is expected to weigh on household spending. Stricter lockdowns in Victoria and the threat of restrictions in NSW is another major headwind.

Europe: The recovery in eurozone business activity faltered in August as renewed infections on the continent took some of the shine from July's surge. The Markit manufacturing PMI fell to a preliminary reading of 51.7 in August from 51.8 in July. The services PMI was substantially below expectations, registering 50.1 in August from 54.7 in July. Both indices remain narrowly in expansion (a reading above 50 indicates expansion), however, the tepid rebound in activity following one of the largest economic slumps in history raises concerns that it will take some time for the economy to fully recover.

United Kingdom: The Markit/CIPS services PMI rose by more than expected to 60.1 in August from 56.5 in July as restrictions were gradually lifted and economic activity improved further during the month. The manufacturing PMI also improved, rising to 55.3 in August from 53.3 previously.

Other data showed that retail sales (ex-petrol) rose 2.0% in July, improving further after a 13.4% spike in June.

New Zealand: Credit card spending rose 1.8% in July, recovering further from the slump due to the lockdown in April. The annual rate of decline improved from -9.4% in June to -5.8%.

United States: Economic data released on Friday surpassed consensus expectations. US home sales rose at a record rate for the second consecutive month in July while business activity expanded faster than expected in August.

Existing home sales rose 24.7% in July to 5.86 million following a 20.2% increase in June. The US housing market has been an unexpected bright spot during the pandemic with monthly existing home sales now above their pre-pandemic level. In July, the number of home sales surpassed the 5.76 million pace recorded in February. Sales have been supported by low interest rates and increased demand for larger homes, which some real estate agents have attributed to increased working from home arrangements.

Meanwhile, separate data showed that manufacturing and services sector companies saw a further recovery in demand in August. The preliminary Markit PMI for manufacturing rose to 53.6 in August from 50.9 in July. The services gauge rose to 54.8 from 50.9 previously.

Markit reported that new orders across manufacturing and services increased for the first time since February. The manufacturing indices for employment and output also rose.

The composite index rose to 54.7 in August from 50.3 in July, the highest since February 2019.

Today's key data and events:

AU ABS Household Impacts of COVID-19 Survey Jun
(11:30am)

NZ Retail Sales Vols Q2 exp -16.3% prev -0.7% (8.45am)

US Chicago Fed Nat Act Index Jul exp 3.69 prev 4.11
(10.30pm)

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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