Morning Report

Thursday, 24 September 2020

Equities (close & % change)		
S&P/ASX 200	5,923.9	2.4%
US Dow Jones	26,763.1	-1.9%
Japan Nikkei	23,346.5	-0.1%
China Shanghai	3,437.3	0.2%
German DAX	12,643.0	0.4%
UK FTSE100	5,899.3	1.2%
Commodities (close & change)*		
CRB Index	147.7	0.2
Gold	1,863.3	-36.9
Copper	6,780.0	-20.5
Oil (WTI)	39.9	0.1
Coal (thermal)	61.9	0.6
Coal (coking)	119.4	0.3
Iron Ore	111.8	-2.2

Sydney Futures Exchange (close & change)				
	Last		Overnight Chg	
10 yr bond	99.15		0.00	
3 yr bond	99.77		0.00	
3 mth bill rate	99.93		0.00	
SPI 200	5,850.0		-55	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.9	-	-	60.8
AUD/USD	0.7168	0.7177	0.7069	0.7075
AUD/JPY	75.22	75.39	74.50	74.54
AUD/GBP	0.5629	0.5632	0.5557	0.5560
AUD/NZD	1.0813	1.0822	1.0750	1.0797
AUD/EUR	0.6123	0.6129	0.6062	0.6068
AUD/CNH	4.8617	4.8693	4.8252	4.8303
USD Index	94.0	94.4	93.9	94.4

Interest rates (close & change)		
Australia		
90 day BBSW	0.09	0.00
2 year bond	0.15	-0.01
3 year bond	0.18	-0.03
3 year swap	0.15	0.01
10 year bond	0.80	-0.02
United States		
3-month T Bill	0.09	0.00
2 year bond	0.14	0.00
10 year bond	0.67	0.00
Other (10 year yields)		
Germany	-0.51	0.00
Japan	0.01	-0.01
UK	0.22	0.02

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: Comments by Fed speakers overnight unsettled markets as they spoke of the difficulties that lie ahead for economic recovery and the need for further government stimulus measures.

Share Markets: US markets moved lower overnight as debate raged on the need for further fiscal stimulus. The Dow fell 1.9%, the S&P500 was down 2.4% and the Nasdaq fell 3.0%. European markets avoided that storm with the FTSE100 up 1.2% and the Dax up 0.4%. Australian SPI futures are down 60 points suggesting weakness at the open.

Interest Rates: Yesterday saw Australian yields edge lower as expectations of a further rate cut by the RBA loomed large. Three-year government bond yield fell 3 basis points to 0.18% and 10-year yields fell 2 basis points to 0.80%. Offshore interest rate markets were steady with US 10-year treasury yields at 0.67%.

RBA: We have flagged since early August, the growing possibility of the RBA delivering more stimulus. Yesterday we published a note outlining our expectation for further RBA action on October 6 when the RBA board meets. It is also the same day the Federal Budget is handed down.

In a speech on Tuesday, RBA Deputy Governor, Guy Debelle, made it clear that more stimulus was on its way due to the challenges facing the economic recovery. Debelle described the recovery as a "slow grind".

We believe a stimulus package will be deployed, which could involve half a dozen elements, to spur lower lending rates across the economy. These elements include cutting the cash rate by 15 basis points to 0.10% and cutting the 3-year bond yield target from 'around' 0.25% to 'around' 0.10%.

The stimulus is also likely to involve the purchase of government bonds beyond maturities of 3 years, a cut to the rate paid on exchange settlement accounts held at the RBA and a cut to the rate paid on the term funding facility (TFF) for new drawdowns.

Forward guidance is also likely to be provided with the RBA likely to stipulate its now familiar mantra that the cash rate will not be lifted before quantitative easing (QE) is lifted and QE will not be lifted before the RBA sees progress made towards its employment and inflation goals. It will take at least three years for the RBA to lift the cash rate, if not longer.

Foreign Exchange: The US dollar index rose 3 points last night to 94.4 while EUR fell to a fresh two-month low. The AUD continued its downward trajectory overnight as expectations of an October RBA rate cut gained traction.

Commodities: The stronger USD overnight saw

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most commodity prices dip lower. Copper, gold and iron ore all fell while West Texas crude oil held its ground.

Australia: The robust recovery in retail spending since May came to a halt in August as retail sales took a backward step. Retail spending fell 4.2% in August, according to preliminary data released by the Australian Bureau of Statistics (ABS) yesterday.

The decline in August followed solid increases in May, June, and July. These came after a bone-jarring, 17.7% decline in April as the COVID-19 restrictions hit home. Despite the backward step, retail sales in August 2020 were 6.9% higher than in August 2019 but this is well down on the 12.0% annual growth in the year to July.

New Zealand: The Reserve Bank of New Zealand (RBNZ) kept its official cash rate (OCR) unchanged at 0.25% and has left its bond buying cap at $100 billion. The central bank, in its latest monetary policy, largely kept to the script expected of it from the market, aside from its comment that it aimed to have cheaper funding for lending (ELP) for the banks in place by year's end.

Europe: Eurozone PMIs for September were dragged lower by weakness in the services sector. The Eurozone composite index slipped to 50.1 a decline of 8 points. The services index fell but manufacturing was firmer with a rise to 53.7 from 51.7 in August.

United Kingdom: The Markit manufacturing PMI fell to 54.3 in September against 55.2 in August. The services index was also weaker at 55.7 against 59.1 the previous month.

United States: The September PMIs were solid with manufacturing coming in at 53.5 up 4 points on August and services at 54.6. The composite index came in at 54.4 against 54.6 in August. Still firm despite the minor dip.

Today's key data and events:

NZ Trade Aug exp -$350mn prev $282mn (8:45am)

EZ European Central Bank Bulletin (6pm)

US Initial Jobless Claims Sep 19 exp 840k prev 860k (10:30pm)

US New Home Sales Aug exp -1.2% prev 13.9% (12am)

US Kansas City Fed Mfg Act. Index Sep exp 14 prev 14 (am)

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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