

Morning Report

Tuesday, 25 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,129.6	0.3%	Last		Overnight Chg			Australia		
US Dow Jones	28,308.5	1.4%	10 yr bond	99.10	-0.02			90 day BBSW	0.11	0.01
Japan Nikkei	22,985.5	0.3%	3 yr bond	99.70	0.00			2 year bond	0.26	0.00
China Shanghai	3,548.5	0.1%	3 mth bill rate	99.89	-0.01			3 year bond	0.26	0.00
German DAX	13,066.5	2.4%	SPI 200	6,133.0	40			3 year swap	0.20	0.00
UK FTSE100	6,104.7	1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.86	-0.02
Commodities (close & change)*			TWI	61.7	-	-	61.6	United States		
CRB Index	151.3	1.3	AUD/USD	0.7160	0.7204	0.7153	0.7163	3-month T Bill	0.09	-0.01
Gold	1,925.5	-15.0	AUD/JPY	75.77	76.15	75.72	75.92	2 year bond	0.15	0.01
Copper	6,498.8	-111.0	AUD/GBP	0.5474	0.5491	0.5466	0.5483	10 year bond	0.65	0.03
Oil (WTI)	42.4	0.1	AUD/NZD	1.0949	1.1003	1.0948	1.0971	Other (10 year yields)		
Coal (thermal)	49.5	-0.6	AUD/EUR	0.6071	0.6083	0.6066	0.6076	Germany	-0.49	0.02
Coal (coking)	112.0	0.0	AUD/CNH	4.9543	4.9735	4.9473	4.9525	Japan	0.03	-0.01
Iron Ore	120.2	-1.6	USD Index	93.2	93.3	92.8	93.3	UK	0.21	0.01

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: Sentiment was positive overnight, although news flow was limited. Markets were supported by COVID-19 vaccine hopes and optimism about the global economic recovery. Equities rose, the US dollar strengthened slightly and oil prices edged higher.

Share Markets: All three major US equity indices rose, with two of the three at fresh record highs. Stocks linked to broader economic prospects improved most, including those in transport, auto manufacturing and construction. The S&P 500 and NASDAQ rose by 1.0% and 0.6%, respectively. Both closed at new record highs. Of the 11 major sectors in the S&P 500, only health care finished lower.

The Dow Jones rose 1.4% overnight. The Dow Jones remains down by 0.8% over the year to date, compared with increases of 6.2% in the S&P 500 and 26.8% in the NASDAQ.

European shares joined the rally as investors rode the wave of bullish vaccine prospects. The Euro Stoxx 50 rose 2.2%. At -11.0% over the year to date, European equities have lagged their US counterparts.

The ASX 200 closed 0.3% higher yesterday after recovering from a sluggish start. The ASX 200 is 8.3% lower so far in 2020.

Interest Rates: US treasury yields spent much of the session trading water. The 10-year treasury yield

rose by 3 basis points to 0.65% and a muted 1 basis point increase in the 2-year yield to 0.15% left the US yield curve steeper. Investors are awaiting a much-anticipated speech by Fed Chair Jerome Powell on Thursday where he is expected to provide further guidance on how the Fed will support the economy.

The Australian yield curve flattened yesterday. Yields on 10-year bonds fell by 2 basis points to 0.86% while the remaining tenors were broadly flat. The 3-year bond yield is at 0.26% and the 90-day bank bill swap rate is at 0.11%.

Foreign Exchange: The US dollar index inched higher to 93.3 this morning, making gains or holding ground against all its G10 peers.

The Australian dollar traded sideways, ending broadly unchanged over the day. The AUD has been consistently breaking 72 US cents intra-session but closing just below. It is at US\$0.7163 this morning.

Commodities: Oil prices rose as storms off the US Gulf of Mexico caused offshore oil rigs to close. WTI crude futures rose US\$0.1 per barrel to US\$42.4.

Gold prices retreated again overnight as vaccine developments quelled some uncertainty about COVID-19. Gold prices fell further away from the US\$2,000 per ounce mark, down US\$15.0 to US\$1,925.5.

COVID-19: The Financial Times reported that the Trump administration is considering granting special treatment to the COVID-19 vaccine developed by Oxford University and AstraZeneca.

There were 216 new cases reported in Australia yesterday by the Department of Health. Victoria accounted for 208 of those cases. There have been 502 deaths reported Australia-wide due to coronavirus.

Australia: The final edition of the household impacts of COVID-19 survey was released yesterday. It covered the period 7-20 June 2020.

The survey showed that by June, 35% of households had reported receiving a stimulus payment relating to COVID-19 from the government. Of those receiving a payment, 32% reported that the main use of the payment was to cover bills. In the May edition of the survey, the dominant use of stimulus payments (29%) was to add to savings.

Concern over COVID-19 lessened in June, with 54% of respondents saying that they were worried about their personal health at the time of the survey compared with 62% in May. People in Victoria were the most likely to report feeling concerned (60%) while Queenslanders were the most sanguine, with 48% reporting that they felt some level of concern about their health relating to COVID-19 in June. Victoria had not yet reintroduced restrictions at the time of the survey.

There was also a decline in the reported rates of "social distancing" in June. 63% of respondents said they were avoiding public spaces and events in June compared with 75% in May.

New Zealand: Retail sales fell by 14.6% in volume terms in the June quarter as COVID-19 dealt a blow to spending.

The decline in spending was widespread, but heavily centred on areas associated with hospitality and tourism. Accommodation & hospitality spending declined by 40%. Spending on durable items, including furnishings and apparel also fell significantly.

The only category that held up was spending on groceries.

Retail spending is expected to recover modestly in the second half of the year. Expenditure did pick up once restrictions were lifted, however, the recent increase in COVID-19 cases is likely to dull some of the recovery. Additionally, spending will be hampered by the ongoing lack of international tourists and the scaling back of the wage subsidy.

United States: According to the Federal Reserve Bank of Chicago, the pace of US economic growth slowed in July. The National Activity Index deteriorated to 1.18 in July from 5.33 in June. Production related indicators dragged on activity while employment prospects also eased. A reading above zero indicates above-trend growth and a reading below signals below-trend growth.

US President Donald Trump was formally nominated for this year's presidential race by his Republican party. Speaking on day one of the Republican national convention, the president repeated his concerns over mail-in ballots and accused Joe Biden of being in China's pocket.

Today's key data and events:

AU Weekly Payroll Jobs & Wages w/e Aug 8 (11:30am)

AU Preliminary Merchandise Trade Jul (11:30am)

EZ German GDP Q2 F exp -10.1% prev -10.1% (4pm)

EZ German IFO Current Assessment Aug exp 92.2 prev 90.5 (6pm)

UK CBI Reported Retail Sales Aug exp 6 prev 4 (8pm)

US House Price Purchase Index Q2 prev 1.7% (11pm)

US FHFA House Prices Jun exp 0.3% prev -0.3% (11pm)

US S&P CoreLogic 20-City House Prices Jun exp 0.1% prev 0.04% (11pm)

US CB Consumer Conf. Aug exp 93.0 prev 92.6 (12am)

US New Home Sales Jul exp 785k prev 776k (12am)

US New Home Sales Jul exp 1.2% prev 13.8% (12am)

US Richmond Fed Mfg Index Aug exp 10 prev 10 (12am)

US Fed's Daly Speaks (5:25am)

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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