

Morning Report

Thursday, 27 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,116.4	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	28,331.9	0.3%	10 yr bond	99.06		0.03	90 day BBSW	0.10	0.00	
Japan Nikkei	23,290.9	0.0%	3 yr bond	99.69		0.00	2 year bond	0.25	0.00	
China Shanghai	3,489.9	-1.3%	3 mth bill rate	99.90		-0.01	3 year bond	0.27	0.02	
German DAX	13,190.2	1.0%	SPI 200	6,095.0		15	3 year swap	0.20	0.00	
UK FTSE100	6,045.6	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.95	0.06
Commodities (close & change)*			TWI	61.5	-	-	61.7	United States		
CRB Index	152.5	-0.2	AUD/USD	0.7194	0.7240	0.7188	0.7231	3-month T Bill	0.09	0.00
Gold	1,954.5	26.3	AUD/JPY	76.55	76.77	76.43	76.65	2 year bond	0.15	0.00
Copper	6,604.8	69.5	AUD/GBP	0.5472	0.5483	0.5469	0.5475	10 year bond	0.69	0.00
Oil (WTI)	43.4	0.1	AUD/NZD	1.0988	1.0998	1.0922	1.0930	Other (10 year yields)		
Coal (thermal)	50.8	1.3	AUD/EUR	0.6079	0.6121	0.6077	0.6112	Germany	-0.42	0.02
Coal (coking)	112.2	0.0	AUD/CNH	4.9678	4.9820	4.9536	4.9757	Japan	0.05	0.01
Iron Ore	120.1	2.5	USD Index	93.0	93.4	92.9	92.9	UK	0.30	0.04

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: Investor sentiment remained upbeat ahead of a keynote speech tonight from US Federal Reserve Chair Jerome Powell. Financial markets appeared to shrug off growing tensions between the US and China. The US S&P 500 share market index hit a new record high amid this backdrop.

Share Markets: US share markets ignored the growing tensions between the US and China and extended their streak of gains. Rising expectations the US Federal Reserve will stay extra accommodative is helping to underpin demand for shares. The S&P 500 index added 35 points (or +0.3%) to reach a new record high. The Dow Jones added 84 points (or +1.0%).

Interest Rates: US 2-year and 10-year government bond yields finished unchanged overnight.

Foreign Exchange: The US dollar index weakened against the major currencies overnight. The AUD/USD exchange rate appreciated from around 0.7200 at the open of European trade to an overnight high of 0.7240. The AUD remains comfortably in the trading range it has been in over the past 4 weeks of 0.7064-0.7276. A clean break above 0.7276 would see the AUD try to stretch to 0.7400.

Commodities: The improvement in risk appetites flowed over to higher prices across most commodities overnight.

COVID-19: Yesterday, Victoria recorded 156 new cases and 24 deaths. In NSW, 6 new cases were confirmed, one of them a bus driver. QLD has recorded 1 new infection.

New data provided the first evidence that Moderna's vaccine consistently stimulates the immune systems of older people for whom inoculations often do not work. In other global COVID-19 news, new Italian and Spanish cases increased further, spread by returning tourists. Both countries rejected fresh lockdowns.

Australia: The construction sector was surprisingly resilient over the June quarter, when nationwide lockdown measures were in place. Construction work done fell just 0.7% in Q2. While lockdown measures were in place at the height of the pandemic over late March and April, construction was deemed as essential and operations continued throughout this period.

Some sectors were more resilient than others. The biggest surprise came from the strength in private engineering construction, which rose 8.6%, and was likely driven by mining activity. The mining sector has fared relatively well during the pandemic.

Residential construction fell sharply and was down 5.5% in the June quarter. Residential construction was likely to have been most affected by "stay-at-home" orders. The spike in unemployment and

weakness in incomes are expected to further weigh on activity in the housing market.

While the data suggests construction may not have been as negatively impacted over the second quarter as previously feared, there are many headwinds for the industry. The Stage 4 lockdown measures currently in place in metropolitan Melbourne will affect construction sites more directly in the September quarter as operations onsite must be limited to 25% of their baseline workforce. Moreover, there is a lagged impact from softer demand on the construction industry. Soft economic conditions will eventually flow through to weaker applications and then construction activity.

China: Tensions between China and the US have escalated. According to news reports, China has fired two medium-range missiles into the South China Sea, after earlier complaining about an American spy plane. Meanwhile, the US Administration has put sanctions on 24 firms, including Guangzhou Haige and units of China Communications Construction, for building Chinese outposts in the disputed area.

Europe: Germany announced that it would extend wage-support schemes to the end of the year at an estimated cost of €10 billion, but also stated that it would tap EU funds (€15 billion in grants) over the next two years in order to meet certain measures, such as exiting coal, without further blowing out their Budget deficit.

New Zealand: The trade balance narrowed from \$475 million in June to \$282 million in July. Imports fell sharply, as imports of crude oil dried up amid travel restrictions. On a year ago, goods imports were down 18% while goods exports were up 0.2%.

United States: Durable goods orders surged 11.2% in July, compared with consensus expectations for an increase of 4.3%. A sharper than expected lift in demand for vehicles boosted the headline figure. However, growth in the month for capital-goods orders slowed, suggesting the rebound in business investment could become more gradual amid uncertainty about the path of the COVID-19 pandemic. Orders for non-defence capital goods excluding aircraft is a closely watched proxy for business investment. It rose 1.9% in July, after growth of 4.3% in June.

The US Federal Reserve Chair, Jerome Powell, is due to deliver a virtual keynote speech tonight at Jackson Hole. Powell is expected to give an update of the framework review - set to be announced as soon as September. There is also a strong view

among analysts that he may indicate the Fed will hold rates near zero for five years or more under its new policy strategy (yet to be revealed).

Powell's Fed colleagues kept up their words of warning on the outlook overnight. Federal Reserve Governor Michelle Bowman said that while the economy "has bounced back noticeably," the pace of recovery remains highly uncertain. Richmond's Federal Reserve President Thomas Barkin said consumer sentiment "has taken a step back" and noted the services sector "remains depressed." And Kansas Federal Reserve President Esther George said she is not opposed to overshooting the 2% inflation goal. George sees more risk of price pressures being too weak than too strong.

Today's key data and events:

AU Private Capital Expenditure Q2 exp -7.0% prev -1.6% (11.30am)

AU Business Impacts Survey from ABS (11:30am)

CH Industrial Profits Jul y/y prev 11.5% (11.30am)

EZ M3 Money Supply Jul y/y exp 9.2% prev 9.2% (6.00pm)

US GDP Q2 annualised exp -32.5% prev -32.9% (10.30pm)

US Fed Chair Powell Speech at Jackson Hole (11.10pm)

US Pending Home Sales Jul exp 2.0% prev 16.6% (12am)

US Kansas City Fed Index Aug exp 5 prev 3 (1.00am)

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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