

Morning Report

Monday, 27 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,024.0	-1.2%			Last	Overnight Chg		Australia		
US Dow Jones	26,469.9	-0.7%	10 yr bond	99.10				90 day BBSW	0.10	0.00
Japan Nikkei	22,751.6	-0.6%	3 yr bond	99.70				2 year bond	0.26	0.00
China Shanghai	3,350.6	-3.9%	3 mth bill rate	99.88				3 year bond	0.27	-0.01
German DAX	12,838.1	-2.0%	SPI 200	5,972.0				3 year swap	0.21	0.00
UK FTSE100	6,123.8	-1.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	0.00
Commodities (close & change)*			TWI	61.9	-	-	61.4	United States		
CRB Index	143.0	0.1	AUD/USD	0.7096	0.7125	0.7064	0.7105	3-month T Bill	0.10	-0.01
Gold	1,902.0	30.6	AUD/JPY	75.84	75.97	74.87	75.41	2 year bond	0.15	0.00
Copper	6,425.0	-133.0	AUD/GBP	0.5572	0.5584	0.5541	0.5554	10 year bond	0.59	0.01
Oil (WTI)	41.3	0.2	AUD/NZD	1.0697	1.0715	1.0674	1.0699	Other (10 year yields)		
Coal (thermal)	56.7	-0.6	AUD/EUR	0.6120	0.6134	0.6085	0.6096	Germany	-0.45	0.03
Coal (coking)	115.1	1.0	AUD/CNH	4.9746	4.9915	4.9623	4.9854	Japan	0.02	0.00
Iron Ore	106.3	-2.0	USD Index	94.8	94.8	94.3	94.3	UK	0.14	0.02

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 6:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Investor fears over US-China tensions were fanned on Friday night and worries about the pandemic continued. Strong economic data in Europe, including the UK, failed to inspire investors. Economic data was mixed in the US. Also grabbing attention was the gold price surpassing US\$1,600 an ounce for the first time since September 2011.

Share Markets: Global share markets fell on Friday, as investors fretted over rising numbers of COVID-19 deaths in the US and the tit-for-tat retaliation in the long-standing tensions between the US and China. The Dow Jones fell 182 points (or -0.7%) and the S&P 500 index dropped 20 points (or -0.6%).

The ASX 200 on Friday closed 71 points weaker (or -1.2%) and for the week was 10 points lower (or -0.2%).

Interest Rates: US bond yields were little changed at the close on Friday. The 2-year yield was unchanged from the previous day and the 10-year yield edged 1 basis point higher.

Foreign Exchange: The US dollar index fell in Friday night trade, as US-China tensions mounted and US deaths from COVID-19 continued to rise. One of the biggest movers among the G-10 currencies was the British pound. It moved from a low of around 1.2720 to an overnight Friday high of 1.2804, after strong domestic data.

The AUD/USD was volatile on Friday night, but moved higher, from an overnight low of 0.7064 to an overnight high of 0.7125. The AUD/USD exchange rate moved sharply higher last week, jumping from 0.6975 on July 20 to a 3-month high of 0.7182 on July 22. The AUD/USD could consolidate this sharp move in the very near term and stick to a trading range of around 0.7050-0.7180. The recent lift in the gold price suggests upside risks for the AUD/USD pair and could mean the period of consolidation is brief.

Commodities: The gold price surpassed US\$1,900 per ounce for the first time since September 2011 and edged closer to a record. Gold is being underpinned by geopolitical concerns and accompanying safe-haven demand.

COVID-19: Australia had 475 new cases in the last 24 hours, led by Victoria with 459 new infections. Victoria also recorded 10 deaths in the past 24 hours. Seven of the deaths are linked to aged-care facilities. There are now 4,233 active cases in Victoria. NSW saw an increase of 14 infections yesterday. WA also added 2.

Globally, infections passed the 16 million mark over the weekend. In the US, Florida passed New York as the US state with the second highest number of total cases behind California. Nationwide, US cases rose 1.6%, slower than the 7-day average. In

Europe, the UK dropped Spain from its list of safe "travel corridors." Spain is scrambling to stay ahead of new outbreaks. In Asia, North Korea locked down a city near its border with South Korea after a suspected case and Hong Kong cases held above 100 for a fifth day.

Australia: The West Australian government yesterday unveiled a further wave of stimulus, worth \$2.7 billion. This additional stimulus brings the total value of stimulus to \$5.5 billion since the COVID-19 pandemic began. The fresh stimulus includes a \$60 million program of shovel-ready building maintenance projects and \$44.5 million for energy infrastructure.

The purchasing managers' indexes (PMIs) for manufacturing, services and composite improved in July, according to the CBA survey published on Friday. All three indexes are above 50.0, suggesting an expansion in activity in coming months. The sharpest improvement was in services.

Europe: The July flash PMIs improved across manufacturing, services and the composite in the euro zone economy. All three indexes moved from contraction (sub 50.0 readings) to expansion (readings above 50.0). The strongest gain was in services (+6.8 points to 55.1) and the large economies of France and Germany showed solid recoveries. However, the reports continued to show concerns about the labour market.

United Kingdom: Strong PMI figures also emerged out of the UK with flash PMIs for July increasing. The composite PMI reached 57.1 in July compared to 47.7 in June, which was the highest reading in just over 5 years.

Retail sales in the UK jumped 13.9% in June, which was much stronger than the 8% rise expected by consensus. The result follows a rise of 12.3% in May. However, sales were still 1.6% below their level in the same month last year.

The data suggests that the UK economy has started the third quarter on a strong recovery, as businesses continued to reopen doors after the COVID-19 lockdown.

United States: The US services sector contracted in July with the PMI services reading registering at 49.6, despite improving slightly from June's reading of 47.9. Readings below 50.0 signals a contraction in activity. The manufacturing PMI, however, rose from 49.8 in June to 51.3 in July.

New home sales spiked 13.8% in June, pushing the sales rate to 776,000 - its highest level in 13 years. This rate is above the prior cycle high of 774,000

struck in January 2020 and is the strongest rate since July 2007. Low mortgage rates are fuelling interest in the housing market in the US. However, the spread of COVID-19 suggests downside risks to the sector.

White House Chief of Staff Mark Meadows said the Republican bill will contain an extended unemployment-benefit plan to replace 70% of jobless individuals' lost wages. The proposal will be unveiled by Senate Majority Leader Mitch McConnell tonight. The House Speaker, Nancy Pelosi, has said the plan is too complicated.

The US government accused China of directing years of espionage from its Houston consulate in defending the decision to shut it down. US administration officials characterised those transgressions as the "tip of the iceberg," hours after Beijing ordered the American mission in the city of Chengdu closed in retaliation.

Today's key data and events:

CH Industrial Profits Jun y/y prev 6.0% (11:30am)

JN All Ind. Activ. Index May exp 3.5% prev -6.4% (2:30pm)

US Dur. Good Orders Jun exp 7.0% prev 15.7% (10:30pm)

US Dallas Fed Mfg Index Jul exp -4.9 prev -6.1 (12:30am)

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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