

Morning Report

Tuesday, 28 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,044.2	0.3%	Last		Overnight Chg			Australia		
US Dow Jones	26,584.8	0.4%	10 yr bond	99.07				90 day BBSW	0.10	0.00
Japan Nikkei	22,715.9	-0.2%	3 yr bond	99.69				2 year bond	0.27	0.01
China Shanghai	3,359.5	0.3%	3 mth bill rate	99.89				3 year bond	0.27	0.01
German DAX	12,838.7	0.0%	SPI 200	6,034.0			26	3 year swap	0.22	0.00
UK FTSE100	6,104.9	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	0.02
Commodities (close & change)*			TWI		61.4	-	-	61.5	United States	
CRB Index	143.8	0.8	AUD/USD	0.7105	0.7150	0.7087	0.7147	3-month T Bill	0.10	-0.01
Gold	1,942.2	40.2	AUD/JPY	75.41	75.43	75.01	75.32	2 year bond	0.15	0.00
Copper	6,423.8	-1.3	AUD/GBP	0.5554	0.5571	0.5534	0.5547	10 year bond	0.62	0.03
Oil (WTI)	41.7	0.0	AUD/NZD	1.0699	1.0719	1.0672	1.0705	Other (10 year yields)		
Coal (thermal)	52.4	-0.8	AUD/EUR	0.6096	0.6101	0.6061	0.6082	Germany	-0.49	-0.04
Coal (coking)	115.1	0.0	AUD/CNH	4.9854	5.0062	4.9745	5.0027	Japan	0.02	0.00
Iron Ore	104.2	-2.0	USD Index	94.3	94.4	93.5	93.7	UK	0.11	-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: US authorities came closer to agreeing to a stimulus package with unemployment benefits are due to expire this weekend. Sentiment was mostly positive – US shares and bonds were higher. The Australian dollar touched its highest in over a year.

Share Markets: US shares rose on hopes of stimulus, ahead of earnings results of major tech giants including Amazon, Facebook and Alphabet, which have been driving markets higher over the past few months. Tech stocks led gains – the Nasdaq rose 1.7%. The S&P500 lifted 0.7% while the Dow finished 0.4% higher.

Interest Rates: Yields on US 10-year bonds rose 3 basis points to 0.62%, likely reflecting the stronger risk appetite witnessed in equity markets. Investors are awaiting the key Federal Reserve meeting on Wednesday and may stay rangebound until then.

Foreign Exchange: The US dollar index edged lower, while the euro surged to its highest since 2018 against the US dollar. The combination of buoyant risk appetite, the high amount of COVID-19 cases in the US and the renewed cooperation in Europe has been supportive of the euro. The Australian dollar climbed to 71.5 US cents this morning, its highest in over a year, also benefiting from the improvement in risk appetite and broad weakness in the US dollar.

Commodities: Oil prices edged higher, also boosted

by stronger risk appetite. Gold prices continued to rise, as stimulus hopes and low interest rates provide ongoing support for the precious metal.

COVID-19: In parts of Asia, restrictions have stepped up including in Vietnam and Hong Kong. The UK has ordered a two-week quarantine from travellers coming from Spain due to a rise in infections in the country.

Global cases rose 254,274 over the past 24 hours, the fourth consecutive day new cases have exceeded ¼ million according to the World Health Organisation (WHO).

In Australia, 549 new cases were reported yesterday, the highest on record. A total 532 cases were from Victoria and 17 were from NSW.

Australia: The stamp duty exemption in NSW for first home buyers was relaxed, in an announcement by the State government yesterday. The threshold for which stamp duty charges would kick in will increase from \$650,000 to \$800,000 on purchases of new homes. Concessions will be available on properties worth under \$1 million. The change to the threshold will begin on 1 August 2020 and last for one year. It will only apply to newly built homes and vacant land and not to existing homes.

RBA Assistant Governor Kent spoke of the significant policy measures that the RBA undertook to support liquidity and bring down borrowing costs

in the financial system. These measures included scaling up daily market operations, purchasing government bonds and providing the Term Funding Facility. Kent has reiterated the sentiment of earlier central bank officials saying that these operations have “worked well”.

In terms of future policy measures, Kent said that new policy measures were not under consideration, and that new monetary policy measures would come with costs. Kent also spoke out against negative interest rates, which would not be helpful in current circumstances and would hurt bank profitability. Kent also said that there was further room for growth in the RBA’s balance sheet and that the RBA was ready to purchase more bonds, to maintain the target for the three-year government bond yield of 0.25%.

On the Australian dollar, Kent said that the AUD was not far from fundamentals and was not overly concerned about its level.

China: Industrial profits growth accelerated from an annual rate of 6.0% in May to 11.5% in June to its fastest pace in 13 months. It provides a further positive sign that economic activity is gaining momentum after COVID-19-related shutdowns earlier in the year. However, a key downside risk is the weak global economy, which will weigh on export demand.

Europe: The German IFO Business Climate index rose from 86.3 in June to 90.5 in July, increasing for the fourth consecutive month. The steady improvement in business confidence is encouraging and follows an agreement for a significant joint euro stimulus package. Moreover, the expectations sub index rose to its highest since November 2018. However, the IFO President Clemens Fuest warned later to press that companies were “fraught with uncertainty” and were still planning on reducing the workforce further.

United States: Republicans in the US Senate along in conjunction with the White House announced their plan for stimulus in what was aimed to be “tailored and targeted”. The boost to unemployment benefits of \$600 per week are due to expire this week so some form of stimulus is required to avoid a US fiscal cliff. Treasury Secretary Steven Mnuchin previously expressed that a reduced benefit was preferred. It was later announced that the plan will include employment insurance of about 70 to 75% of income. Negotiations with US Democrats are reportedly underway.

Durable goods orders rose 7.3% in June, following a 15.3% increase in May. Manufacturing activity has rebounded significantly but faces headwinds from weak domestic demand and uncertainty over the outlook given a resurgence in COVID-19 cases.

Today’s key data and events:

AU Weekly Payroll Jobs and Wages, week ending Jul 11 (11:30am)

US S&P CoreLogic CS House Prices May exp 0.3% prev 0.3% (11pm)

US Consumer Confidence Jul exp 94.4 prev 98.1 (12am)

US Richmond Fed Mfg Jul exp 5 prev 0 (12am)

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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