

# Morning Report

Wednesday, 28 October 2020

| Equities (close & % change)   |          |       | Sydney Futures Exchange (close & change) |         |                      |        |         | Interest rates (close & change) |       |       |
|-------------------------------|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200                   | 6,051.0  | -1.7% | <b>Last</b>                              |         | <b>Overnight Chg</b> |        |         | <b>Australia</b>                |       |       |
| US Dow Jones                  | 27,463.2 | -0.8% | 10 yr bond                               | 99.21   | 0.01                 |        |         | 90 day BBSW                     | 0.06  | 0.00  |
| Japan Nikkei                  | 23,485.8 | 0.0%  | 3 yr bond                                | 99.85   | 0.00                 |        |         | 2 year bond                     | 0.11  | 0.00  |
| China Shanghai                | 3,410.7  | 0.1%  | 3 mth bill rate                          | 99.98   | 0.00                 |        |         | 3 year bond                     | 0.12  | 0.00  |
| German DAX                    | 12,063.6 | -0.9% | SPI 200                                  | 6,020.0 | -24                  |        |         | 3 year swap                     | 0.09  | 0.00  |
| UK FTSE100                    | 5,729.0  | -1.1% | FX Last 24 hrs                           | Open    | High                 | Low    | Current | 10 year bond                    | 0.80  | 0.00  |
| Commodities (close & change)* |          |       | TWI                                      | 60.1    | -                    | -      | 60.2    | <b>United States</b>            |       |       |
| CRB Index                     | 150.7    | 1.3   | AUD/USD                                  | 0.7128  | 0.7147               | 0.7116 | 0.7128  | 3-month T Bill                  | 0.09  | 0.00  |
| Gold                          | 1,907.7  | 5.6   | AUD/JPY                                  | 74.73   | 74.79                | 74.43  | 74.44   | 2 year bond                     | 0.15  | 0.00  |
| Copper                        | 6,790.0  | 17.3  | AUD/GBP                                  | 0.5474  | 0.5482               | 0.5460 | 0.5462  | 10 year bond                    | 0.77  | -0.03 |
| Oil (WTI)                     | 38.9     | 0.4   | AUD/NZD                                  | 1.0668  | 1.0670               | 1.0618 | 1.0629  | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                | 61.1     | 0.2   | AUD/EUR                                  | 0.6036  | 0.6043               | 0.6022 | 0.6041  | Germany                         | -0.62 | -0.04 |
| Coal (coking)                 | 111.9    | 3.0   | AUD/CNH                                  | 4.7735  | 4.7898               | 4.7680 | 4.7848  | Japan                           | 0.03  | 0.00  |
| Iron Ore                      | 113.5    | 0.9   | USD Index                                | 93.1    | 93.1                 | 92.8   | 93.0    | UK                              | 0.23  | -0.04 |

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:** It was a mixed performance across asset classes overnight.

**Share Markets:** Major US share markets struggled overnight. The Dow Jones fell 222 points (or -0.8%) and S&P 500 index 10 points (or -0.3%). However, the Nasdaq advanced, underpinned Advanced Micro Devices (AMD) taking over Xilinx. The Nasdaq closed 72 points higher (or +0.6%).

The ASX200 tumbled 1.70% yesterday amid concerns over coronavirus numbers around the globe and the difficulties with achieving a US stimulus deal.

**Interest Rates:** Yields at the long-end of the US yield curve fell overnight while the 2-year bond yield remained unchanged.

**Foreign Exchange:** The major currencies stuck to narrow trading ranges overnight, including the Australian dollar. The AUD/USD traded a range of 0.7116-0.7147. In the near term, the AUD/USD is likely to maintain a range of 0.7000-0.7250. It might move out of this range closer to the Reserve Bank board meeting on Melbourne Cup day.

**Commodities:** Commodities were firmer in overnight trade.

**COVID-19:** Virus numbers are still soaring overseas. Hospitalisations have risen at least 10% in the past week across 32 US states. Italy and the Netherlands

increased their economic aid packages, and Germany is headed for tougher restrictions.

In vaccine news, Pfizer indicated that a large, late-stage trial has not yet reached a key milestone that will help determine how well it protects people. Novavax delayed its own late-stage study of a candidate in the US and Mexico by more than a month.

**Australia:** No major economic data released but CPI figures will be released later today (11.30am). We expect headline inflation to be 1.1% for the September quarter, driving the annual inflation rate to +0.3% (from -0.3% in the June quarter). The trimmed mean annual rate is expected to rise by 0.8%, highlighting the degree of slack and in the Australian additional support from the Reserve Bank.

**China:** Industrial profits for September rose 10.1% year-on-year from the 19.1% annual increase in August. For the first nine months of the year, profits fell 2.4% from the same period in 2019.

Prices were less favourable for industrial businesses in September than the previous month, while profits in some major sectors, like electronics and automobiles

**New Zealand:** NZ recorded a trade deficit in September of \$1.02 billion, driven by a drop in exports and a lift in imports. However, the surplus

in the year to September has reached a fresh six-year high of \$1.71 billion.

**United States:** Orders for durable goods rose 1.9% in September for the fifth month in a row and business investment strengthened again, signalling a steady expansion in American manufacturing activity. A key measure of business investment, known as core durable goods orders, increased 1.0% in September. This measure excludes defence and transportation, which can be very volatile and lumpy.

The CoreLogic house price index for major cities rose by 0.5% in August and by 5.2% in the year to August. The annual rate improved from the annual pace of 4.1% in July. Low interest rates are underpinning demand for houses and prices of houses.

Richmond's manufacturing activity strengthened in October, according to the most recent survey from the Richmond Federal Reserve. The Richmond Fed index rose to 29 in September – the highest reading on record. The increase was led by shipping, capex and new orders. Employment stayed the same.

The University of Michigan consumer confidence pulled back to 100.9 in September, from a downwardly revised 101.3 in August. A slide in expectations (- 4.5 points to 98.4) more than offset an improvement in the present situation (+ 5.7 points to 104.6).

**Today's key data and events:**

AU CPI Q3 (11:30am)

Headline q/q exp 1.1.% prev -1.9%

Headline y/y exp 0.3% prev -0.3%

Underlying q/q exp 0.0.% prev -0.1%

Underlying y/y exp 0.8% prev 1.2%

US Goods Trade Sep exp -\$84.5bn prev -\$83.1bn (11:30pm)

US Wholesale Inventories Sep exp 0.4% prev 0.5% (11:30pm)

US Retail Inventories Sep exp 0.5% prev 0.8% (11:30pm)

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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