Morning Report

Friday, 2 October 2020

Equities (close & % change)		
S&P/ASX 200	5,872.9	1.0%
US Dow Jones	27,816.9	0.1%
Japan Nikkei	23,185.1	0.0%
China Shanghai	3,372.6	-0.2%
German DAX	12,730.8	-0.2%
UK FTSE100	5,879.5	0.2%
Commodities (close & change)*		
CRB Index	146.1	-2.4
Gold	1,905.3	19.4
Copper	6,382.5	6,342.3
Oil (WTI)	38.7	-1.6
Coal (thermal)	63.3	0.4
Coal (coking)	141.6	-1.6
Iron Ore	117.0	-0.1

Sydney Futures Exchange (close & change)	Last	Overnight Chg
10 yr bond	99.13	0.03
3 yr bond	99.78	0.01
3 mth bill rate	99.92	0.00
SPI 200	5,843.0	-25

FX Last 24 hrs	Open	High	Low	Current
TWI	60.7	-	-	61.2
AUD/USD	0.7158	0.7209	0.7155	0.7183
AUD/JPY	75.49	76.06	75.49	75.81
AUD/GBP	0.5540	0.5603	0.5539	0.5574
AUD/NZD	1.0824	1.0848	1.0799	1.0801
AUD/EUR	0.6106	0.6129	0.6106	0.6115
AUD/CNH	4.8553	4.8655	4.8388	4.8474
USD Index	93.9	93.9	93.5	93.7

Interest rates (close & change)		
Australia		
90 day BBSW	0.09	0.00
2 year bond	0.18	0.02
3 year bond	0.18	0.02
3 year swap	0.14	0.00
10 year bond	0.90	0.11
United States		
3-month T Bill	0.09	-0.01
2 year bond	0.13	0.00
10 year bond	0.68	0.00
Other (10 year yields)		
Germany	-0.54	-0.01
Japan	0.02	0.00
UK	0.23	0.01

Data as at 7:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Key global share markets were higher overnight. Global bond yields were little changed and the US dollar lost ground. There was no further progress in US stimulus negotiations and economic data overnight was mixed.

Share Markets: US share markets rose overnight, despite little progress in fiscal stimulus negotiations. Investors are holding out hopes for a stimulus deal eventually being reached. The Dow Jones rose by 35 points (or +0.1%) and the S&P 500 index lifted 18 points (or +0.5%).

Interest Rates: Treasuries were little changed. Both US 2-year and 10-year yields were unchanged at the close from the previous session.

Foreign Exchange: The US dollar index depreciated in last night's session, especially against the NZD, although the Japanese yen and British pound lost ground. The AUD/USD continued to move higher, reaching an overnight high of 0.7209. In the very near term, we expect the AUD/USD to push further upwards.

Commodities: Oil slid to a 2-week low in New York as rising shipments from OPEC+ members are adding to the market turmoil. Saudi Arabia's September crude exports jumped by half a million barrels a day on higher flows to India and South Korea. The oil market is also dealing with the unexpected return of Libyan output with exports at an eight-month high. Iraq, Kuwait and Oman shipped more oil last month as well and Russian exports are expected to increase.

COVID-19: There were 19 new cases in Australia yesterday and an estimated 370 active cases. 15 of these cases were in Victoria, 3 in NSW (with only 1 locally transmitted infection) and 1 in WA.

Elsewhere, infections are spiking in Germany, Israel, Italy, Poland and Malaysia. In Moscow, more workers were ordered to stay home as daily cases tripled in the last two weeks. London is at a "tipping point," according to a key public health official. New York reported the most cases since May and Brazil is seeing flare-ups in early hotspots.

Australia: Prime Minister Morrison delivered a pre-Budget address yesterday at the National Press Club. As widely expected, Morrison unveiled a $1.5 billion boost to the manufacturing industry.

Headline numbers can be deceiving. Dwelling prices fell 0.2% across the eight capital cities in September but rose in all capital cities except Melbourne and Sydney. House prices across the capital cities have now fallen for five consecutive months but there is a wide variation between them.

Falls of 0.9% in Melbourne and 0.3% in Sydney during September weighed heavily on the national figure. Our two largest cities had seen the strongest increases in dwelling prices pre-COVID and were ripe for downturns as the pandemic unfolded.

Dwelling prices in Darwin rose fastest at 1.6%. Dwelling prices rose 0.5% in Brisbane and 0.8% in Adelaide in September. They were up 0.4% in Canberra and Hobart and they rose 0.2% in Perth.

Turnover remained extremely low, as buyers and sellers opted to sit on the sidelines amid the uncertainty caused by COVID-19.

While the focus has been on the weakness in some markets since April, the fact remains that over the year to September, dwelling prices have risen in all capital cities except Perth.

Dwelling prices in regional areas continue to outperform the capital cities. Dwelling prices across regional Australia rose 0.4% in the month and the annual growth rate has improved every month since January 2020 to stand at 4.3%.

We expect dwelling prices to remain soft at a national level until well into next year before picking up on the back of budget stimulus, a recovering economy, a possible resumption of immigration, an easing of mobility restrictions and historically low interest rates.

The AiG performance of manufacturing index fell in September to 46.3, from 49.3 in August. It is the lowest reading since May and is below 50.0, suggesting contraction in manufacturing activity in the period ahead. The survey was conducted prior to Prime Minister’s announcement giving the manufacturing sector a boost.

Job vacancies rebounded by a record-sixed 46.7% in the three months to August, from a drop of 49.3% in the previous three months. The construction industry recorded the fastest recovery with job vacancies expanding nearly 92% in the three-month period.

Across all authorised deposit institutions (ADIs), loans subject to repayment deferrals totalled $229 billion or 8.5% of all loans, according to recent APRA data. Housing loans subject to repayment deferrals accounted for $160 billion (or 9.0% of all housing loans) and small business loans were $53 billion (or 16.2% of all small business loans). This data revealed housing loans account for the majority of total loans granted repayment deferrals, but small business loans have a higher incidence of repayment deferral.

Exits from deferral continue to outweigh new entries for the second straight month; $24 billion loans expired or exited deferral and $14 billion of entries were approved or extended.

The pace of exits slowed over August; total exits were $24 billion in August compared with $40 billion in July (i.e. a drop of 41%). The majority of these loans have returned to performing status.

Eurozone: The unemployment rate in the Eurozone region lifted from a revised 8.0% in August to 8.1% in September. It is the fifth consecutive monthly rise. Further rises are likely, as wage support programs expire and an increase in infections in many countries raises fears that some restrictions on business interaction may have to be re-imposed.

Producer prices edged up just 0.1% in September with the annual rate contracting by 2.5%. This data suggests there is little inflation in the pipeline.

The final measure for the Markit manufacturing purchasing managers’ index (PMI) remained unchanged at 53.7 in September.

United Kingdom: The final measure for the Markit manufacturing PMI was revised slightly lower to 54.1 in September, from the initial estimate of 54.3.

United States: Challenger job cuts rose a modest 2.6% in September. The report noted that volatile conditions are continuing in many industries, casting a host of burdens on the employment landscape.

The number of Americans who applied for jobless benefits fell slightly to 837k for the week ended September 26. It is the lowest level since the start of the pandemic. A big complication with the data is California. The state is not accepting new applications until early October while it processes a large backlog and investigates reports of widespread fraud.

Personal income, which households received from salaries, investments and government aid, fell 2.7% in August as enhanced unemployment cheques shrank. Personal spending in the same month rose by 1.0%. The risk is the economic recovery loses some momentum if household incomes continue to drop.

The Federal Reserve pays close attention to the core personal consumption expenditure (PCE) measure of inflation when deliberating on policy. This measure rose by 1.6% in the year to September, up from 1.4% in the twelve months to August. Despite the uptick in the month, inflation remains subdued.

The final measure for the Markit manufacturing PMI was revised slightly lower to 53.2 in September, from the initial estimate of 53.5. The reading remains above 50.0, which suggests an expansion in activity is likely over the coming months.

Construction spending jumped 1.4% in August following an upwardly revised gain of 0.7% in July (previously reported as a 0.1% increase).

Economic activity in the manufacturing sector expanded at a softer pace in September than it did in August with the ISM's manufacturing PMI edging lower to 55.4 from 56.0. The details in the report revealed that the prices paid sub index rose to 62.8 - its highest reading since October 2018. The new orders sub index declined 7.4 points to 60.2 and the employment sub index improved slightly to 49.6.

House Speaker, Nancy Pelosi, and Treasury Secretary, Steve Mnuchin, continued to haggle over a fiscal stimulus package, with the House speaker saying major differences with the White House remain. Republicans put forth a $1.6 trillion package that includes $400 in weekly additional unemployment insurance. House Democrats want $600 a week as part of their $2.2 trillion bill, which will be put to a vote later in the day.

Today's key data and events:

NZ ANZ Consumer Confidence Sep prev 100.2 (7am)

AU Retail Sales Aug Final exp -4.2% prev 3.2% (11:30am)

EZ Consumer Price Index Sep exp 0.1% prev -0.4% (7pm)

US Non-farm Payrolls Sep exp 875k prev 1371k (10:30pm)

US Unemployment Rate Sep exp 8.2% prev 8.4% (10:30pm)

US Avg Hourly Earnings Sep exp 0.2% prev 0.4% (10:30pm)

US Federal Reserve's Harker Speech (11pm)

US UoM Cons. Sentim. Sep Final exp 79.0 prev 78.9 (12am)

US Factory Orders Aug exp 0.9% prev 6.4% (12am)

US Dur. Goods Orders Aug Final exp 0.4% prev 0.4% (12am)

US Federal Reserve's Kashkari's speech (3am)

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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Note: Due to the Labour Day Holiday on Monday 6 October in parts of Australia, there will be no morning report published on this day. The morning report will return on October 6.

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