

# Morning Report

Thursday, 30 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,006.4	-0.2%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	26,539.6	0.6%	10 yr bond	99.11		0.00	90 day BBSW	0.10	0.00	
Japan Nikkei	22,397.1	-1.1%	3 yr bond	99.70		0.00	2 year bond	0.27	0.00	
China Shanghai	3,453.2	2.1%	3 mth bill rate	99.88		-0.01	3 year bond	0.28	0.00	
German DAX	12,822.3	-0.1%	SPI 200	6,029.0		54	3 year swap	0.21	0.00	
UK FTSE100	6,131.5	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	-0.04
<b>Commodities (close &amp; change)*</b>			TWI	61.6	-	-	61.7	<b>United States</b>		
CRB Index	144.3	0.9	AUD/USD	0.7159	0.7197	0.7149	0.7186	3-month T Bill	0.10	-0.01
Gold	1,970.8	12.4	AUD/JPY	75.22	75.52	75.17	75.41	2 year bond	0.13	-0.01
Copper	6,480.0	-4.0	AUD/GBP	0.5535	0.5548	0.5522	0.5529	10 year bond	0.57	0.00
Oil (WTI)	41.3	0.3	AUD/NZD	1.0753	1.0794	1.0746	1.0781	<b>Other (10 year yields)</b>		
Coal (thermal)	55.5	0.3	AUD/EUR	0.6108	0.6120	0.6082	0.6094	Germany	-0.50	0.01
Coal (coking)	113.0	-2.0	AUD/CNH	5.0128	5.0367	5.0097	5.0284	Japan	0.02	0.00
Iron Ore	107.7	2.8	USD Index	93.7	93.8	93.2	93.3	UK	0.12	0.01

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

**Main Themes:** Rising COVID-19 infections continue to stoke fears about the economic outlook. These fears were also stoked by dovish remarks from US Federal Chair Jerome Powell after the Federal Reserve met to discuss policy settings. Powell flagged that the pace of recovery was slowing and risks were to the downside. However, Powell again vowed to do “whatever it takes” to support growth.

**Share Markets:** The Dow Jones added 160 points (or +0.6%) and the S&P 500 index rose 40 points (or +1.2%). Stocks were underpinned by Powell’s commitment to do whatever it takes. Yesterday, the ASX 200 index lost 14 points (or -0.2%).

**Interest Rates:** US bond yields edged lower at the shorter end and remained unchanged at the long end. The 2-year yield dropped 1 basis point.

**Foreign Exchange:** The AUD reached an overnight high of 0.7197, continuing its pattern of the last 3 days of making higher highs. It is the highest rate for the AUD against the USD since 18 April 2019.

We flagged in this report on 10 June that we anticipated the AUD/USD would correct modestly lower (after hitting 0.7063) and consolidate for a time before pushing higher towards our target of 0.7400. After hitting USD0.7063 on 10 June, the AUD/USD corrected and moved to a 2-week low of 0.6777 on 15 June. It subsequently consolidated in a range of 0.6777-0.7005 for the next few weeks

(until 14 July).

We remain comfortable with our view that it will reach 0.7400 within the next 1-2 months.

**Commodities:** The American Petroleum Institute (API) is said US stockpiles rose by 1.1 million barrels last week. It is the first expansion in a month and underscores warnings that a pullback in demand growth threatens to undermine the recovery in oil prices.

Gold continued to march higher, reaching a record high of US\$1,982 a tonne during trade. It has pulled back to close at US\$1,971 a tonne.

**COVID-19:** NSW has imposed new rules for gyms and fitness centres. From August 1, gyms and fitness centres will require a permanent marshal on duty at all times. Gyms and fitness centres will also have to register their COVID-19 safety plan.

Queensland also announced it would shut its border with NSW from this Saturday at 1am.

The Federal government said it was considering giving paid pandemic leave to more workers in Victoria after carers and nurses in aged care won the entitlement earlier this week.

Yesterday, Victoria reported 295 new cases and nine more deaths, as it reached the halfway point of the 6-week lockdown. NSW added 19 new infections yesterday, all of which relate to existing

clusters.

In the US, the number of deaths from COVID-19 surpassed 150,000, the highest official toll in the world and another grim milestone in a pandemic that is still raging in many states. Texas, Florida and California reported record daily fatalities.

Globally, infections have passed the 16.8 million mark and the number of deaths exceed 662,000.

**Australia:** The headline consumer price index (CPI) fell 1.9% in the June quarter, the largest drop in the series history which date back to 1948. The annual rate of headline inflation eased to -0.3%, turning negative for the first time since 1998. There have previously only been two periods where the annual rate of inflation has turned negative.

The spectacular drop in prices in the June quarter did not come as a surprise. The sharp drop was influenced heavily by the impact of COVID-19 on consumer behaviour and the measures aimed to curb its spread.

Costs of childcare fell sharply (-95% in the quarter), as it became free across the country. Pre-school was also made free in NSW, Victoria and Queensland. The limitations on the movement of people around the world also weighed heavily on oil prices and led to a sharp drop in petrol (-19.6%).

Underlying inflation was also very weak. The trimmed mean inflation measure fell 0.1% in the June quarter, declining for the first time ever in the series calculation, beginning in 1982. On an annual basis, trimmed mean inflation eased to 1.2% in the June quarter, also the lowest on record. Underlying inflation has moved further away from the RBA's 2-3% per annum target band and has not been in this band since 2015.

Some of the major price declines that occurred over the June quarter are likely to be reversed in the September quarter. However, the decline in underlying inflation suggests that price weakness is broader based. The bumpy economic recovery and the likelihood that there will be spare capacity within the economy for some time points to inflation remaining very weak.

**Europe:** Any European Central Bank (ECB) decision to unwind its emergency stimulus will be based mostly on inflation, policy maker Yannis Stournaras said, though price growth will remain well below target through 2022 at least.

Stournaras expects the ECB to use the entire €1.35 trillion program and said the euro-area economy is recovering in line with ECB projections, though risks

are on the downside.

**United States:** The US Federal Reserve Open Market Committee (FOMC) met overnight to discuss policy. The FOMC left the fed funds rate at 0-0.25% and reiterated their determination to do whatever necessary to support faltering growth. The FOMC stressed the "path of the economy will depend significantly on the course of the virus." Officials also noted that activity and employment have picked up after sharp declines, but "remain well below" where they were at the start of the year.

The FOMC Chair, Jerome Powell, in a virtual conference after the statement was published stressed the path forward for the economy is extraordinarily uncertain, and will depend in large part on our success in keeping the virus in check. Powell added the Fed has seen some signs in recent weeks that the increase in virus cases, and the renewed measures to control it, are starting to weigh on economic activity.

Powell said that not all sectors of the economy were weakening, citing the housing sector as a bright spot among others. But "on balance it looks the data are pointing to a slowing in the pace of the recovery." He also said it was too soon to say how large - or sustained - this period would be.

Pending home sales continued to climb in June, rising by 16.6% in June and by 6.3% in the twelve months to June. It was the second consecutive monthly increase (following a rise of 44.3% in May). The data is published by the National Association of Realtors. They also raised their forecast for the housing market because of what they say is an apparent market turnaround. For 2020, existing home sales are expected to decline by only 3% (from -7.7% previously) and new home sales are forecast to rise by 3% (from 1% previously).

The US trade deficit narrowed to \$70.6 billion in June, from \$75.3 billion in May. The smaller deficit was driven by a rise of 13.9% in exports, which overwhelmed the gain in imports of 4.8%.

Pessimism is clouding stimulus talks between Republicans and Democrats that continue later today. House Speaker, Nancy Pelosi, said Senate Majority Leader Mitch McConnell's insistence on retaining liability protections for businesses suggests he is not serious about a deal. Treasury Secretary Steve Mnuchin and House Chief of Staff Mark Meadows echoed the downbeat tone. President Trump said he does not support some parts of the Republican Party's package.

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

NZ Building Permits Jun prev 35.6% (8.45am)

JN Retail Sales exp 8.0% prev 1.9% (9:50am)

NZ Business Confidence Jul Final prev -29.8 (11.00am)

AU Bldg Approvals Jun exp -4.0% prev -16.4% (11.30am)

AU Trade Price Indices Q2 (11:30am)

Export Prices exp -1.8% prev 2.7%

Import Prices exp -4.4% prev -1.0%

EZ Economic Confidence Jul exp 81.3 prev 75.7 (7.00pm)

EZ Consumer Confidence Jul Final prev -15.0 (7.00pm)

EZ Unemployment Rate Jun exp 7.7% prev 7.4% (7.00pm)

EZ Ger. CPI (EU measure) Jul y/y 0.3% prev 0.8% (10pm)

US GDP Q2 annualised exp -34.8% prev -5.0% (10.30pm)

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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