

Morning Report

Monday, 31 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,073.8	-0.9%	Last		Overnight Chg			Australia		
US Dow Jones	28,653.9	0.6%	10 yr bond	99.00	0.04			90 day BBSW	0.09	0.00
Japan Nikkei	22,882.7	-1.4%	3 yr bond	99.68	0.00			2 year bond	0.25	0.01
China Shanghai	3,567.6	1.6%	3 mth bill rate	99.91	0.00			3 year bond	0.26	0.00
German DAX	13,033.2	-0.5%	SPI 200	6,004.0	-40			3 year swap	0.19	0.00
UK FTSE100	5,963.6	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.02	0.11
Commodities (close & change)*			TWI	61.9	-	-	62.3	United States		
CRB Index	153.4	0.7	AUD/USD	0.7261	0.7367	0.7255	0.7363	3-month T Bill	0.10	0.00
Gold	1,964.8	35.3	AUD/JPY	77.37	77.96	77.09	77.63	2 year bond	0.13	-0.03
Copper	6,681.5	49.0	AUD/GBP	0.5499	0.5530	0.5491	0.5516	10 year bond	0.72	-0.03
Oil (WTI)	43.0	-0.1	AUD/NZD	1.0929	1.0958	1.0904	1.0935	Other (10 year yields)		
Coal (thermal)	51.9	0.6	AUD/EUR	0.6142	0.6188	0.6136	0.6183	Germany	-0.41	0.00
Coal (coking)	107.9	0.0	AUD/CNH	5.0005	5.0534	4.9946	5.0514	Japan	0.06	0.02
Iron Ore	120.2	2.4	USD Index	93.0	93.1	92.2	92.3	UK	0.31	-0.03

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: A new approach towards inflation targeting by the Fed continued to reverberate through markets on Friday night. Stocks rose and the US dollar fell.

Share Markets: All three major US share indices rose on Friday. A 0.6% increase in the Dow Jones left it positive over the year to date – all three major US equity indices are now positive over 2020. The S&P 500 rose 0.7% to hit a fresh new record while the NASDAQ increased 0.6% (also a new record).

European bourses did not partake in the rally, with the Euro Stoxx 50 down 0.5%. An increase in new COVID-19 cases in France and Germany caused concern among investors.

The Australian market ended the weak on a sour note. The ASX 200 fell 0.9% on Friday, leaving it 0.6% lower over the week. Our share market has now declined for two consecutive weeks.

Interest Rates: US treasury yields fell overnight on Friday. The 2-year yield was 3 basis points lower at 0.13% while the 10-year yield was also down 3 basis points to 0.72%.

The Australian yield curve steepened sharply on Friday following the official shift in the US Federal Reserve's approach to inflation targeting on Thursday. The 10-year yield rose 11 basis points to 1.02%. The 3-year bond yield remains within the

RBA's target of "around 0.25%" at 0.26% on Friday.

Foreign Exchange: The potential for lower US interest rates over a longer period, as well as higher US inflation, left the US dollar index down by 0.7% on Friday. The US dollar index is currently at 92.3 this morning.

The Australian dollar has benefitted from the weaker US dollar and risk-on move among currencies. The AUD is trading near its recent highs this morning at US\$0.7362.

Commodities: Gold prices are once-again approaching US\$2,000 per ounce amid US dollar weakness. Oil prices edged lower after operations to restore US offshore oil production following storms resumed. WTI oil futures fell US\$0.1 per barrel to US\$43.0 on Friday night.

COVID-19: Australia reported 125 new coronavirus cases yesterday, according to the Department of Health. Victoria continues to account for the bulk of new cases, with 114 new cases in the State.

Australia: There was no major data released on Friday.

Europe: Economic confidence ticked higher to 87.7 in August from 82.4 in July, despite an increase in COVID-19 cases across the continent. Confidence in the services sector remained relatively downbeat, at -17.2, although sentiment was improved from -

26.1 in July. Industrial confidence picked up to -12.7 from -16.2 previously.

Japan: Japanese Prime Minister Abe has announced his resignation due to health concerns. Abe was Japan's longest-serving prime minister and has been a source of stability for Japan's leadership. Abe has also been a staunch supporter of aggressive policy stimulus to combat deflation.

New Zealand: Consumer confidence fell 3.9% to 100.2 in August according to the ANZ index. Half the responses came after the news that COVID-19 cases were in the community, and was likely behind the weakening in confidence.

China: Beijing imposed new restrictions on the export of artificial intelligence technologies which jeopardises any sale of the popular Chinese-made app TikTok, according to news reports.

Separately, there was a spike in bad-debt provisions among large Chinese banks. First-half earnings showed that loan loss provisions rose between 27% and 97% across ICBC, CCB, AgBank and BBOC.

United States: Personal income rose 0.4% in July, ahead of market expectations of a 0.2% decline and up from a decline of 1.0% in June. Spending was also firmer than expected, at 1.9% in July after a 5.6% bounce in June. Household income and consumption will face a sterner test in August when unemployment support ended. The PCE core deflator, which is watched closely by the Fed as an inflation indicator, rose 1.3% in annual terms in July. The muted level of inflation (well below the Fed's 2% target) underscored the tacit acknowledgement of looser monetary policy by the Federal Reserve following Fed Chair Jerome Powell's Jackson Hole speech where he signalled a shift towards average inflation targeting earlier in the week.

A build up in retail inventories (1.2% in July) and a less-than-expected drawdown in wholesale inventories (-0.1%) added to evidence of a slight increase in near-term economic activity. The July advanced goods trade deficit widened to US\$79.3 billion from US\$71.0 billion in June.

Confidence surveys for August were mixed. The final reading of the University of Michigan consumer sentiment index rose to 74.1, boosted by a rise in the expectations component to 68.5 from 66.5 previously. Consumers' assessment of current conditions rose to 82.9 from 82.5 previously. The MNI Chicago PMI fell slightly to 51.2 in August from 51.9 in July. The index remains above the 50 level, indicating activity expanded over the month.

Today's key data and events:

AU MI Inflation Aug y/y prev 0.9% (11.00am)

AU Private Sector Credit Jul exp -0.2% prev -0.2% (11.30am)

AU Company Profits Q2 exp -10% prev 1.1% (11.30am)

AU Inventories Q2 exp -0.8% prev -1.2% (11.30am)

CH Mfg PMI Aug exp 51.1 prev 51.1 (11.00am)

CH Non-mfg PMI Aug exp 54.1 prev 54.2 (11.00am)

JN Industrial Production Jul exp 5.0% prev 1.9% (9.50am)

US Dallas Fed Index Aug exp 0.0 prev -3.0 (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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