

Morning Report

Monday, 3 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,927.8	-2.0%			Last	Overnight Chg		Australia		
US Dow Jones	26,428.3	0.4%	10 yr bond	99.15				90 day BBSW	0.10	0.00
Japan Nikkei	21,710.0	-2.8%	3 yr bond	99.70				2 year bond	0.27	0.00
China Shanghai	3,469.4	0.7%	3 mth bill rate	99.88				3 year bond	0.27	0.00
German DAX	12,313.4	-0.5%	SPI 200	5,877.0				3 year swap	0.21	0.00
UK FTSE100	5,897.8	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.82	-0.04
Commodities (close & change)*			TWI	61.6	-	-	61.9	United States		
CRB Index	143.7	0.9	AUD/USD	0.7159	0.7227	0.7127	0.7127	3-month T Bill	0.08	-0.01
Gold	1,975.9	5.1	AUD/JPY	75.22	75.92	75.02	75.61	2 year bond	0.11	-0.01
Copper	6,422.5	-17.3	AUD/GBP	0.5535	0.5502	0.5445	0.5448	10 year bond	0.53	-0.02
Oil (WTI)	40.3	0.4	AUD/NZD	1.0753	1.0785	1.0736	1.0774	Other (10 year yields)		
Coal (thermal)	52.7	0.6	AUD/EUR	0.6108	0.6078	0.6050	0.6065	Germany	-0.52	0.02
Coal (coking)	111.1	-1.9	AUD/CNH	5.0128	5.0540	4.9821	4.9824	Japan	0.02	0.00
Iron Ore	109.0	1.3	USD Index	93.7	93.5	92.5	93.5	UK	0.10	0.02

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: It was a mixed night of trading on Friday. Equities were firmer, US bond yields lower and the US dollar recovered from a 2-year low. European data showed a deep and severe contraction in GDP in Q2. And US sentiment data showed Americans became more worried about the outlook.

Share Markets: US share markets finished higher in Friday's trading session and finished higher for the month. The S&P 500 index ended Friday up 25 points (or +0.8%) and ended the month 171 points firmer (or +5.5%). The Dow Jones closed Friday up 115 points (or +0.4%) and ended the month 615 points higher (or +2.4%).

On Friday, the ASX 200 share market index ended down 123 points (or -2.0%) and finished the month of July 30 points stronger (or +0.5%).

Interest Rates: US 2-year treasury yields fell from 0.12% to 0.10%, equalling May's record low, before closing 1 basis point lower at 0.11%. Meanwhile, the US 10-year bond yield ranged between a 5-month low of 0.52% and 0.56% and closed 2 basis points lower at 0.53%.

Foreign Exchange: The USD index fell to 92.5, its lowest since May 2018, before clawing back losses to finish firmer in Friday night's session. The EUR/USD pair fell from a 2-year high of 1.1909. A sharp fall in Q2 GDP for the eurozone spurred the

sell off of the euro.

The AUD/USD pair rose to an 18-month high of 0.7227 before succumbing to selling pressures. We continue to expect the AUD/USD to reach 0.7400 within the next few months.

Commodities: Gold, oil and iron ore prices were firmer on Friday night.

COVID-19: Victoria added 671 new cases yesterday. Victoria's Premier announced Metropolitan Melbourne would fall under stage 4 restrictions effective from 6pm last night, including curfew restrictions between 8pm and 5am. These new restrictions will last 6 weeks.

The rate of new cases slowed in the US to its lowest in at least 5 days. In the UK, Prime Minister Boris Johnson could seal off London to avert a second national lockdown.

Australia: Credit to the private sector fell 0.2% in June, falling for the second consecutive month. June's decline was also the weakest result in 27½ years.

Business credit fell by 0.8%, which is the weakest result in 3 years. Other personal credit also fell sharply in the month whilst housing credit grew modestly.

China: The official purchasing managers' index (PMI) was 51.1 for July, with a reading above 50.0

signifying growth in factory output. This result was slightly better than June's reading of 50.9. The services PMI was 54.2. Both surveys have now reported positive outlooks for 5 consecutive months.

Japan: The jobless rate unexpectedly fell to 2.8% in June, from a 3-year high of 2.9% in May. But the jobs-to-applicants ratio slumped to 1.11 in June, from 1.20 in May, marking the lowest reading since October 2014.

Industrial production snapped four months of decline in June to rise by 2.7%, driven by a bounce in motor vehicle production.

New Zealand: The Roy Morgan consumer confidence index fell 0.2% to 104.3 in July, still well under its historical average but also well off its lows. It has made back around half of its fall, but seems to have run out of steam for now.

Europe: GDP in the eurozone region fell by 12.1% in Q2, which is the biggest decline in history. It follows a contraction of 3.6% in Q1 and confirms a recession in the eurozone. Spain was the worst hit country, suffering an 18.5% decline compared to the previous quarter. On a year ago, eurozone GDP was 15.0% softer.

Headline consumer prices fell by 0.3% in the eurozone region in July, leaving the annual growth rate soggy at 0.4%.

United Kingdom: House prices according to Nationwide leapt 1.7% in July, after a fall of 1.6% in June. But Nationwide has warned the jump is a false dawn. The rise largely reflects pent-up demand from those who wanted to move before lockdown. Stamp duty relief has also helped to underpin demand.

United States: Personal spending by households jumped 5.6% in June, after a rise of 8.5% in May. However, more recent data suggests households are pulling back. Credit-card spending data reveals a moderation in spending, as the US faces a surge in infections. The expiration of a \$600 weekly unemployment benefit amid congressional gridlock could also further slow spending and the economic recovery. Personal income, meanwhile, fell 1.1% in June.

The core personal consumption expenditure (PCE) deflator, which is widely watched by the Federal Reserve, rose by 0.8% in the year to June, from an annual rate of 0.5% in May. June's result remains well under the Fed's target of 2% per annum.

The final reading of consumer sentiment in July

slipped to 72.5 from an initial reading of 72.9. This index registered a reading of 73.2 in June. The downgrade from the initial reading reveals that Americans grew more worried about the economy toward the end of July after a fresh outbreak of COVID-19 cases.

The employment cost index or the cost of employing the average US worker rose 0.5% in the second quarter during the height of the pandemic. Wages rose 0.4% in the same period while benefits jumped 0.8%.

The Chicago PMI rose from 36.6 in June to 51.9 in July. The result was also well above consensus of 44.0.

House Speaker Pelosi and White House negotiators could not agree over the weekend on restoration of the \$600 a week jobless benefit, which expired on Friday, but will resume talks on Monday.

The US had the outlook on its AAA debt rating revised to negative from stable by Fitch ratings agency. Fitch said it was to "reflect the ongoing deterioration in US public finances and the absence of a credible fiscal consolidation plan. Fitch added that financing flexibility, assisted by Federal Reserve intervention to restore liquidity to financial markets, does not entirely dispel risks to medium-term debt sustainability, and there is a growing risk that US policymakers will not consolidate public finances sufficiently to stabilise public debt after the pandemic shock has passed.

Today's key data and events:

AU NSW & ACT Bank Holiday & NT Picnic Day Holiday
 AU AiG Performance of Mfg Jul prev 51.5 (8:30am)
 AU CoreLogic House Prices Jul prev -0.8% (10am)
 AU Melb Inst Inflation Gauge Jul prev 0.6% (11am)
 AU Job Ads Jul prev 42.0% (11:30am)
 CH Caixin Mfg PMI Jul exp 51.1 prev 51.2 (11:45am)
 JN GDP Q1 Final exp -0.7% prev -0.6% (9:50am)
 US Mfg PMI Jul Final exp 51.3 prev 51.3 (11:45pm)
 US ISM Manufacturing Jul exp 53.3 prev 52.6 (12am)
 US Construction Spend. Jun exp 1.0% prev -2.1% (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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