

Morning Report

Thursday, 3 September 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,063.2	1.8%			Last	Overnight Chg		Australia		
US Dow Jones	29,100.5	1.6%	10 yr bond	99.08		0.03		90 day BBSW	0.09	0.00
Japan Nikkei	23,247.2	0.5%	3 yr bond	99.70		0.00		2 year bond	0.25	0.00
China Shanghai	3,568.5	-0.2%	3 mth bill rate	99.91		0.00		3 year bond	0.26	0.00
German DAX	13,243.4	2.1%	SPI 200	6,090.0		39		3 year swap	0.18	-0.01
UK FTSE100	5,941.0	1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.93	-0.04
Commodities (close & change)*			TWI	62.9	-	-	62.6	United States		
CRB Index	151.4	-1.9	AUD/USD	0.7375	0.7382	0.7301	0.7337	3-month T Bill	0.10	0.00
Gold	1,943.1	-27.1	AUD/JPY	78.14	78.17	77.54	77.91	2 year bond	0.13	0.00
Copper	6,706.8	6.3	AUD/GBP	0.5511	0.5514	0.5487	0.5495	10 year bond	0.65	-0.02
Oil (WTI)	41.6	-1.2	AUD/NZD	1.0909	1.0912	1.0820	1.0836	Other (10 year yields)		
Coal (thermal)	50.6	-0.8	AUD/EUR	0.6189	0.6195	0.6168	0.6189	Germany	-0.47	-0.05
Coal (coking)	113.0	0.0	AUD/CNH	5.0412	5.0421	4.9909	5.0133	Japan	0.04	0.00
Iron Ore	122.0	2.4	USD Index	92.3	92.9	92.2	92.7	UK	0.23	-0.07

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: US share markets continued their record run, despite US jobs added in August in the private sector disappointing consensus expectations. US bond yields were mixed and the US dollar strengthened.

Share Markets: US share markets continued their relentless move higher. The S&P 500 finished at a new record high. A surge in money supply and investors seeking a return in a low-interest-rate environment continue to help fuel demand for stocks. The S&P 500 index finished 54 points higher (or +1.5%), the Dow Jones ended 455 points stronger (or +1.6%) and the Nasdaq closed 117 points firmer (or +1.0%).

If there was a Lionel Messi stock, it would have skyrocketed overnight with unconfirmed media reports Messi will join Manchester City from Barcelona at a cost of \$1.1 billion!

Interest Rates: The US 2-year treasury yield ranged sideways between 0.13% and 0.14% and ended the overnight session unchanged. Meanwhile, the US 10-year yield fell 2 basis points.

The Australian 3-year government bond yield (futures) slipped from 0.32% to 0.31%, while the 10-year yield fell from 0.97% to 0.92%.

Foreign Exchange: The AUD rose from 0.7337 to 0.7366 in the wake of the Australian GDP figures. The AUD/USD did not rally for long, moving lower

over the rest of Asian trade and for most of the overnight session to reach an overnight low of 0.7300. US dollar strength was also a feature of overnight trade.

Commodities: Key commodity prices, including for gold and oil, weakened overnight.

COVID-19: Yesterday there were 109 new infections in Australia, taking the total case count since the pandemic began to 25,923. There are currently 2,622 active cases in Australia.

In Victoria, there were 90 new cases reported yesterday. In NSW, there were 16 new cases with a growing cluster in Sydney's CBD.

Media reports suggest draft leaked documents from Victoria's government could see Victoria's stage 4 restrictions last an additional two weeks after September 13 when the lockdown was expected to be lifted.

Australia: The Australian economy contracted 7.0% over the June quarter. It was the largest in the history of the series, which began in 1959. The sizeable contraction in the quarter followed a 0.3% contraction in the March quarter, which confirms that the Australian economy was in recession over the first half of 2020. It is the first recession since the early 90s.

As anticipated, household spending was curtailed significantly as the restrictions prevented

consumers from eating out and travelling. Household spending dropped a record-sized 12.1% in the quarter with spending on discretionary services hit hard. Business investment was also weaker, as firms shifted their priorities to preserving cash and adjusting to new social distancing rules.

We also saw the significance of government assistance in preventing a fall in household incomes and providing support to businesses. These support measures will help the economy to a faster recovery as concerns regarding the pandemic subsides. These outcomes highlight the importance of further government support while restrictions remain in place in parts of the country and confidence remains weak while COVID-19 cases remain within the community.

Given the lift in COVID-19 cases in NSW and Victoria over the September quarter, and the restrictions imposed in Victoria, economic growth may not return until the December quarter of the year. The recovery path is likely to remain uneven.

New Zealand: The terms of trade lifted by 2.5% in the June quarter, above the consensus estimate for a 0.6% increase. It reflected a 2.4% increase in export prices, while import prices fell 0.1%. Higher export prices were driven by prices of dairy, kiwifruit and logs.

United Kingdom: House prices increased by the most in 16 years in August after a tax cut stoked post-lockdown demand, but the revival could prove-short-lived as the UK government begins to withdraw its pandemic support. House values jumped 2% from a month earlier and are up 3.7% on a year ago, according to Nationwide.

United States: The US labour market remains fragile. According to the ADP report, American companies added 428,000 jobs in August, fewer than half the consensus estimate. July's number was revised upward to 212,000.

The final reading for durable goods orders in July was revised up to 11.4%, from the preliminary estimate of 11.2%.

The Federal Reserve's Beige Book reported that the US economy expanded in August, but many parts of the country experienced slower growth amid lingering anxiety over the pandemic. The Beige Book also reported that continued uncertainty and volatility related to the pandemic, and its negative effect on consumer and business activity, was a theme echoed across the country.

New York's Federal Reserve President John Williams

touted the Fed's new dovish approach toward inflation, saying it will meaningfully improve the ability to foster maximum employment and stable prices. He added the shift "directly and effectively addresses the problems caused by a low neutral rate and persistently low inflation. Williams also offered few clues as to whether central bank officials will update their policy guidance, saying "even the topic of raising interest rates is so far off in the future that I'm not going to focus on that right now.

The US budget deficit will more than triple to a record \$3.3 trillion this fiscal year and the national debt will exceed 100% of the economy next year for the first time since World War II, the US Congressional Budget Office said overnight. US government debt will increase to \$33.5 trillion by the end of 2030 (or 109% of GDP).

The US imposed new restrictions on China's diplomats in the latest tit-for-tat struggle with China's government. Senior Chinese envoys must now get State Department approval to visit US university campuses or meet with local officials and diplomatic social media accounts will be identified as government controlled.

Today's key data and events:

AU AiG Perf of Construction Aug prev 42.7 (8.30am)
 AU Trade Balance Jul exp \$5.4bn prev \$8.2bn (11.30am)
 CH Caixin Services PMI Aug exp 53.9 prev 54.1 (11.45am)
 EZ Retail Sales Jul exp 1.0% prev 5.7% (7.00pm)
 US Trade Jul exp -\$58.0bn prev -\$50.7bn (10.30pm)
 US ISM Non-Mfg Aug exp 57.0 prev 58.1 (12.00am)

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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