

Morning Report

Tuesday, 4 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,926.1	0.0%			Last	Overnight Chg		Australia		
US Dow Jones	26,678.0	0.9%	10 yr bond	99.13			0.00	90 day BBSW	0.10	0.00
Japan Nikkei	22,195.4	2.2%	3 yr bond	99.70			0.00	2 year bond	0.27	0.00
China Shanghai	3,530.2	1.8%	3 mth bill rate	99.89			0.00	3 year bond	0.27	0.00
German DAX	12,647.0	2.7%	SPI 200	5,975.0			87	3 year swap	0.20	0.00
UK FTSE100	6,032.9	2.3%	FX Last 24 hrs					10 year bond	0.82	0.00
Commodities (close & change)*			TWI	61.9	-	-	61.9	United States		
CRB Index	146.8	3.1	AUD/USD	0.7127	0.7198	0.7121	0.7124	3-month T Bill	0.08	-0.01
Gold	1,975.9	19.2	AUD/JPY	75.61	75.48	74.83	75.48	2 year bond	0.11	0.00
Copper	6,422.5	-17.3	AUD/GBP	0.5448	0.5534	0.5453	0.5448	10 year bond	0.55	0.02
Oil (WTI)	40.8	0.6	AUD/NZD	1.0774	1.0801	1.0737	1.0771	Other (10 year yields)		
Coal (thermal)	61.4	-0.5	AUD/EUR	0.6065	0.6100	0.6043	0.6054	Germany	-0.52	0.00
Coal (coking)	111.0	-2.0	AUD/CNH	4.9824	5.0397	4.9962	4.9741	Japan	0.03	0.01
Iron Ore	110.5	5.7	USD Index	93.5	93.7	92.9	93.5	UK	0.10	0.00

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: Market sentiment was positive overnight. Better-than-expected manufacturing data outshone virus concerns. Expectations of further policy support also buoyed equities.

Share Markets: Major US equity bourses rose overnight. The S&P 500 increased 0.7% and the Dow Jones was up 0.9% amid positive economic data and reports that the White House was exploring whether US president Donald Trump could act on his own to extend enhanced unemployment benefits. Tech stocks led the rally; the NASDAQ closed 1.5% higher at a new record high. Apple shares touched their highest ever.

The ASX 200 did not partake in the global equities rally yesterday. The index swung between gains and losses, closing unchanged after the Victorian government announced tougher containment measures.

Interest Rates: The US treasury yield curve steepened following stronger-than-expected manufacturing data. The 10-year treasury yield rose 2 basis points to 0.55% while the 3-month bill fell 1 basis point to 0.08%.

Australian yields were unchanged across the curve yesterday. The 10-year yield is at 0.82% while the 90-day bank bill swap rate is 0.10%. The 3-year bond yield is currently within the Reserve Bank (RBA) target range at 0.27%.

The RBA is expected to keep its policy settings unchanged at its meeting today. This includes the cash rate and 3-year bond yield target at 0.25%.

Foreign Exchange: The US dollar strengthened slightly overnight, although selling pressure crept in in the second half of the session. The US dollar index inched higher to 93.520 this morning after registering its weakest monthly performance in nearly a decade. The index fell 4.2% last month, its biggest drop since falling 5.4% in September 2010.

The Australian dollar is currently trading at US\$0.7124 this morning. It has recovered sharply after falling to a low of US\$0.7121 before the release of US manufacturing data overnight.

Commodities: Oil gained on hopes of an economic recovery, but persistently high infection rates and the phasing out of some of the OPEC+ supply cuts limited the increase. WTI crude oil futures rose US\$0.6 per barrel to US\$40.8.

Iron ore prices rose on positive manufacturing data out of the US and China signalling strengthening demand. Iron ore futures traded on the Singapore exchange rose 4.3% to US\$110.5 per tonne.

COVID-19: Victoria's Premier outlined further details of the state's new lockdown yesterday. Effective from Thursday, general retail will be closed (excludes supermarkets, pharmacies, petrol stations, newsagencies, bottle shops) and

warehouses, abattoirs and construction sites will have to operate at reduced capacity. Businesses will be given grants from \$5,000-\$10,000 if they are forced to close. Further restrictions and clarifications would be released in coming days.

The Australian Department of Health said there were 444 new cases recorded yesterday, including 429 in Victoria and 13 in NSW.

Prime Minister Scott Morrison also announced a “pandemic leave disaster payment” for people in Victoria who are required to self-isolate for 14 days but do not have any paid leave. The payment is \$1,500 per the 14 days.

South Australia tightened restrictions, reducing the number of people allowed into a home from 50 to 10. The State recorded 2 new infections yesterday, according to the Department of Health.

New Zealand’s Prime Minister Jacinda Ardern said there will be no trans-Tasman travel bubble until 2021.

The number of confirmed cases globally rose by 224k yesterday, according to data compiled by Bloomberg.

Australia: Dwelling prices fell 0.6% in July across the capital cities, according to CoreLogic data. Melbourne recorded the largest drop with the median dwelling value falling 1.2% over the month. It was followed by Sydney with a 0.9% decline.

The AiG performance of manufacturing index rose 2.0 points to 53.5 in July, indicating a more convincing expansion. Manufacturing has now printed above 50 for two straight months for the first time since October 2019.

China: The Caixin purchasing managers’ index (PMI) rose to 52.8 in July, from 51.2 in June. It is the highest reading since January 2011. A number above 50 signals an expansion in activity, while a reading below that indicates a contraction. The data adds to evidence the economic recovery may continue in coming months.

Japan: Japan’s economy shrank an annualised 2.2% in Q1, unchanged after a second revision. On a quarter-on-quarter basis, GDP contracted 0.6%, also unchanged from the second preliminary reading.

Europe: Manufacturing activity is expanding at a moderate pace across the euro zone. The final reading of the July Markit manufacturing PMI confirmed an increase to 51.8 from 47.4 in June.

German manufacturing activity expanded for the first time since December 2018, according to Markit. The index rose to 51.0 in July from 45.2 in

June.

United Kingdom: The final reading of the Markit manufacturing PMI showed that activity rebounded further in July. The final reading was 53.3, down slightly from the preliminary estimate of 53.6 but up from 50.1 in June.

United States: A closely watched index of manufacturing activity picked up to its highest level in 17 months in July as demand continued to recover. The ISM manufacturing PMI rose to 54.2 in July, ahead of expectations of 53.6. The forward-looking new orders index rose to 61.5 from 56.4 in June, suggesting that firms expected the recovery to continue. Despite improving to 44.3 in July from 42.1 in June, the employment component remained in contraction for the 12th straight month.

The Markit manufacturing PMI fell slightly from its preliminary estimate in July to a final reading of 50.9.

Other data showed that construction spending fell 0.7% in June following a 2.1% decline in May.

Today’s key data and events:

AU International Trade Jun (11:30am)

-Trade Balance exp A\$8.8bn prev A\$8.0bn

-Exports exp 4.0% prev -4.0%

-Imports exp 3.0% prev 6.0%

AU Retail Sales Jun exp 2.4% prev 16.9% (11:30am)

AU Retail Sales Q2 exp -3.2% prev 0.7% (11:30am)

AU RBA Cash Rate Target exp 0.25% prev 0.25% (2:30pm)

AU Commodity Index AUD Jul prev 95.8 (4:30pm)

EZ Producer Prices Jun exp 0.6% prev -0.6% (7pm)

US Factory Orders Jun exp 5.0% prev 8.0% (12am)

US Factory Orders Ex Trans Jun prev 2.6% (12am)

US Durable Goods Jun F exp 7.3% prev 7.3% (12am)

US Cap Goods Orders Nondef Ex Air Jun F prev 3.3 (12am)

NZ QV House Prices Jul (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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