Morning Report

bankSA

Friday, 4 September 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,112.6	0.8%		Last		Overnight Chg		**Australia**		
US Dow Jones	28,292.7	-2.8%	10 yr bond	99.10		0.02		90 day BBSW	0.09	0.00
Japan Nikkei	23,465.5	0.9%	3 yr bond	99.70		0.00		2 year bond	0.25	0.00
China Shanghai	3,547.7	-0.6%	3 mth bill rate	99.91		0.00		3 year bond	0.26	0.00
German DAX	13,057.8	-1.4%	SPI 200	5,993.0		-119		3 year swap	0.17	-0.01
UK FTSE100	5,850.9	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.91	-0.02
Commodities (close & change)*			TWI	62.6	-	-	62.3	**United States**		
CRB Index	150.4	-1.0	AUD/USD	0.7337	0.7338	0.7265	0.7272	3-month T Bill	0.10	-0.01
Gold	1,930.9	-12.0	AUD/JPY	77.91	77.94	77.07	77.21	2 year bond	0.13	-0.01
Copper	6,573.8	-133.0	AUD/GBP	0.5495	0.5506	0.5475	0.5477	10 year bond	0.63	-0.01
Oil (WTI)	41.3	-0.1	AUD/NZD	1.0836	1.0860	1.0816	1.0840	**Other (10 year yields)**		
Coal (thermal)	51.2	-0.6	AUD/EUR	0.6189	0.6197	0.6131	0.6137	Germany	-0.49	-0.02
Coal (coking)	113.3	0.3	AUD/CNH	5.0133	5.0144	4.9754	4.9787	Japan	0.04	0.00
Iron Ore	124.3	2.3	USD Index	92.7	93.1	92.7	92.8	UK	0.24	0.01

Data as at 8.00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

Main Themes: Financial markets finally reassessed the level of risk overnight. US share markets had their biggest fall in months. There was not any obvious trigger for the move. Bond yields fell and the Australian dollar is down, although movements in other asset classes were more muted.

Share Markets: The mis-alignment of US stocks and the economic outlook somewhat corrected overnight. The US S&P500 had its biggest one-day tumble since mid-June. The sell-off was led by the tech sector, which has driven the recent rally. The Nasdaq fell 5.0%, while the S&P500 fell 3.5%.

SPI futures imply a 119-point drop equating to a 2% fall in the ASX200 in Australian share market today.

Interest Rates: Yields on US treasuries fell slightly, as risk appetite weakened. The US 10-year yield fell 1.3 basis points to 0.64%.

Foreign Exchange: The US dollar index initially lifted, but then pared gains later on. JPY and CHF were the outperformers as risk appetite weakened. The Australian dollar was a major casualty from the weaker turn in sentiment. AUD fell from a high of $0.7340 US cents to US$0.7272 this morning.

Commodities: Oil prices weakened, reflecting the jolt lower in market sentiment. Gold prices were also caught up in broad sell-off and also fell.

Australia: Australia's trade surplus narrowed in July – as was anticipated, albeit the move was a little greater than forecast.

The trade surplus narrowed to $4.6 billion in July, moderating from $8.1 billion in June. Export earnings declined by 4.4% with services exports taking a sizeable step down in the month of 12.0%. Goods exports fell by 2.8%, with declines across iron ore (off a high base), coal and LNG (on weaker demand) and rural goods.

Imports rose by 6.9%, which represents a partial rebound off a low starting point and likely includes an element of clustering of imports at the start of the new financial year.

The theme over the first half of the year was that weak demand and the closure of the international border had seen imports plunge. With the economy reopening, imports have rallied somewhat.

Gains in the month were in imports of road vehicles (off an extreme low), "other" capital goods (volatile and off a low base) and gold – together these rose by $1.5bn, explaining the bulk of the $1.9bn rise in imports.

China: The Caixin services purchasing managers' index (PMI) fell to 54.0 in August, from 54.1 in July. The reading was above the 50 mark that separates expansion from contraction, making it the fourth straight month of expansion in activity.

Europe: Retail sales unexpectedly fell 1.3% in July, retreating from the strong recovery from May and

June. Sales were still higher on an annual basis, up 0.4% in the year to July.

United States: This morning, a news report has indicated that US House Speaker and Treasury Secretary Mnuchin have informally agreed upon a stopgap funding bill aimed to avoid a US government shutdown at the end of the month.

Initial jobless claims fell from 1011k to 881k for the week ending August 29, the lowest since early March, before the pandemic escalated. It is continuing to point to an improvement in the labour market but a still elevated number of claims suggest that there is still significant spare capacity within the labour market.

The services PMI published by Markit was revised upwards from 54.8 to 55.0 in the final estimate for August, and further above the 50.0 reading in July. It was the highest since March 2019. It is continuing to signal further recovery in the services sector.

Chicago Fed President Evans presented a sombre picture of the economy, and expects that US output would not return to re-crisis levels until late 2022. He also expected the unemployment rate at that point to be between 5% and 5.5%. This outlook would mean that “highly accommodative monetary policy will be appropriate for some time to come”. Evans also emphasized the importance of fiscal policy in supporting this current downturn, and that without a new fiscal package, it would present a “very significant downside risk to the economy today”.

Today’s key data and events:

AU AIG Perf of Services Aug prev 44.0 (8:30am)

AU Retail Sales Jul Final exp 3.3% prev 2.7% (11:30am)

EZ Germany Factory Orders Jul prev 27.9% (4pm)

US Non Farm Payrolls Aug exp 1,625K prev 1,763K (10:30pm)

US Unemploy. Rate Aug exp 9.8% prev 10.2% (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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