

Morning Report

Wednesday, 5 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,037.6	1.9%	Last		Overnight Chg			Australia		
US Dow Jones	26,828.5	0.6%	10 yr bond	99.18		0.03		90 day BBSW	0.10	0.00
Japan Nikkei	22,573.7	1.7%	3 yr bond	99.72		0.00		2 year bond	0.26	-0.01
China Shanghai	3,534.1	0.1%	3 mth bill rate	99.89		-0.01		3 year bond	0.26	-0.01
German DAX	12,600.9	-0.4%	SPI 200	5,983.0		-14		3 year swap	0.20	-0.01
UK FTSE100	6,036.0	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.83	0.02
Commodities (close & change)*			TWI		61.9	-	-	61.9	United States	
CRB Index	147.9	1.1	AUD/USD	0.7124	0.7167	0.7106	0.7125	3-month T Bill	0.09	-0.01
Gold	2,019.2	42.2	AUD/JPY	75.48	75.79	75.39	75.49	2 year bond	0.11	0.00
Copper	6,459.0	-41.5	AUD/GBP	0.5448	0.5486	0.5438	0.5448	10 year bond	0.51	-0.05
Oil (WTI)	41.6	-0.1	AUD/NZD	1.0771	1.8290	1.0750	1.0772	Other (10 year yields)		
Coal (thermal)	55.9	-0.1	AUD/EUR	0.6054	0.6085	0.6046	0.6057	Germany	-0.55	-0.03
Coal (coking)	111.0	-0.1	AUD/CNH	4.9741	4.9983	4.9628	4.9758	Japan	0.02	-0.01
Iron Ore	111.6	1.1	USD Index	93.5	93.8	93.2	93.5	UK	0.08	-0.02

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: Negotiations are continuing between US Democrats and the White House in regards to a stimulus package, although there were some positive signs of progress. Sentiment was mildly positive, resulting in US shares and the Australian dollar edging higher. Bond yields were lower.

Share Markets: Mixed earning reports led to a volatile session in US share markets. Progress on talks over US fiscal stimulus helped indices end in the black. Meanwhile, the Dow rose 0.6%, the S&P500 and the Nasdaq both lifted 0.4%.

Interest Rates: US bond yields fell, likely reflecting concerns about the economic growth outlook, and expectations of ongoing easy monetary policy. US ten-year yields fell 5 basis points to a low of 0.51%.

In Australia yesterday, the RBA's comment that it would re-enter the market to purchase bonds drove down the 3-year government bond yield down 2 basis points towards its target of 0.25%.

Foreign Exchange: The US dollar index initially lifted, but then edged lower. The Australian dollar conversely edged higher, climbing to 71.6 US cents this morning. It also followed the RBA statement yesterday, which was not as downbeat on the recent Victorian lockdown measures as it could have been. That being said, the RBA highlighted uncertainty about the outlook.

Commodities: Gold prices lifted above \$2,000 an

ounce for the first time ever, supported by expectations of easy monetary policy and hopes of further fiscal stimulus.

Oil prices rose, also likely on progress of US fiscal stimulus and expectations a report will show a decrease in US stockpiles.

COVID-19: Today, the Prime Minister is set to announce support in relation to childcare for Victoria under Stage 4 lockdown measures.

There were 452 new cases in Australia yesterday. A total 439 were in Victoria and 12 were in NSW.

New cases globally stood at 219,862 according to the World Health Organisation (WHO).

Australia: Retail spending gained another 2.7% in June following a 16.9% increase in May. A recovery in household spending took hold in the latter part of the June quarter, as restrictions eased across most of the country. On an annual basis retailing was up 8.5%, the strongest in three months.

However, the jump in spending over May and June followed a record decline of 17.7% in April, when the bulk of restrictions were in place. Spending in June was 1.2% lower than its level in March and was weaker over the June quarter.

In June, there were further gains in sectors which were hardest hit by lockdown measures. Clothing, footwear & personal accessories jumped 20.5% in June following a 129.2% increase in May. Spending

also increased within cafes, restaurants & takeaway food services, lifting 27.9% in June after a 30.4% increase in May. However, on an annual basis these areas of spending were down 4.2% and 16.6%, respectively.

Retail volumes in the June quarter contracted 3.4%. It was the largest contraction in retail volumes in nearly 20 years.

A sizeable fall in household spending is likely over the June quarter. Spending on services, such as tourism and recreational services, are likely to take a much larger hit in the quarter and are not covered in today's retail sales data.

Retail spending has been volatile given the lockdown measures imposed in late March and subsequent easing of restrictions. There are pockets of stronger demand in some areas of retailing, including food, certain household goods, furniture and recreational equipment, as spending has been diverted away from other household services.

However, the rise in unemployment and falling household incomes will likely weigh on the outlook for household spending. The even stricter lockdown measures imposed on Melbourne and Victoria from this week is another major headwind for retailing, and one which will limit spending further.

Meanwhile, the Reserve Bank (RBA) kept its monetary policy settings unchanged yesterday, as widely expected. The Board left the cash rate target unchanged at 0.25%. Additionally, the target for the 3-year bond yield was left at around 0.25%.

In the accompanying statement, Governor Philip Lowe noted that the yield on the 3-year government bond was creeping slightly higher, and that the RBA would likely intervene in the bond market today. The statement also revealed that \$29 billion of the Term Funding Facility has been drawn down.

The RBA is due to release its updated economic forecasts on Friday in the Statement on Monetary Policy (SoMP). In yesterday's statement, the RBA's baseline scenario for GDP in 2020 was unchanged at a 6% decline. It has revised its growth forecast for 2021 lower from 6% to 5%.

The Board noted that outside of Victoria, the fall in growth due to the pandemic has not been as severe as previously expected. The renewed lockdown in Victoria was noted as a serious concern for the outlook.

Europe: The Chief Economist of the European Central Bank (ECB) Philip Lane said that the ECB was

committed to supporting the euro zone economy by providing the monetary stimulus needed. Lane said that the level of economic slack was "extraordinarily high" and the outlook was "highly uncertain".

United States: Negotiations among Democrats and the White House remain underway to reach an agreement on a new round of stimulus. Senate Minority Leader Chuck Schumer said that they were far apart on a number of issues but were "finally moving in the right direction".

Factory orders lifted 6.2% in June, following a 7.7% increase in May, indicating a further recovery in activity after lockdown. Demand for motor vehicles have driven the rebound. However, there is significant uncertainty about the outlook, particularly with high number of COVID-19 cases.

Today's key data and events:

AU AiG Perf of Construction Index Jul prev 35.5 (8:30am)
 NZ Avg. Hourly Earnings Q2 exp 0.5% prev 1.4% (8:45am)
 NZ Employment Chg. Q2 exp -2.0% prev 0.7% (8:45am)
 NZ Participation Rate Q2 exp 69.7 prev 70.4 (8:45am)
 NZ Unemployment Rate Q2 exp 5.6 prev 4.2 (8:45am)
 AU CBA Australia PMI Services Jul F prev 58.5 (9am)
 AU CBA Australia PMI Composite Jul F prev 57.9 (9am)
 JN Jibun Bank Services PMI Jul F prev 45.2 (10:30am)
 NZ ANZ Commodity Price Jul prev -0.7% (11am)
 CH Caixin Services PMI Jul exp 58.0 prev 58.4 (11:45am)
 EZ Markit Services PMI Jul F exp 55.1 prev 55.1 (6pm)
 UK Markit Services PMI Jul F exp 56.6 prev 56.6 (6:30pm)
 EZ Retail Sales Jun exp 6.1% prev 17.8% (7pm)
 US ADP Employment Jul exp 1200k prev 2369k (10:15pm)
 US Trade Bal. Jun exp -\$50.2b prev -\$54.6b (10:30pm)
 US Markit Services PMI Jul F exp 49.6 prev 49.6 (11:45pm)
 US ISM Services Index Jul exp 55.0 prev 57.1 (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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