

Morning Report

Friday, 5 February 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,765	-0.9%			Last	Overnight Chg		Australia		
US Dow Jones	31,056	1.1%	10 yr bond	98.77		0.00	90 day BBSW	0.01	0.00	
Japan Nikkei	28,342	-1.1%	3 yr bond	99.82		0.00	2 year bond	0.11	0.00	
China Shanghai	3,671	-0.4%	3 mth bill rate	99.99		0.00	3 year bond	0.11	0.00	
German DAX	14,060	0.9%	SPI 200	6,766.0		69	3 year swap	0.15	0.00	
UK FTSE100	6,504	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.23	0.06
Commodities (close & change)*			TWI	62.7	-	-	62.9	United States		
CRB Index	180.2	1.2	AUD/USD	0.7620	0.7648	0.7588	0.7602	3-month T Bill	0.03	-0.01
Gold	1,793.67	-40.4	AUD/JPY	80.05	80.33	79.97	80.23	2 year bond	0.11	0.00
Copper	7,826.50	-25.0	AUD/GBP	0.5589	0.5621	0.5555	0.5560	10 year bond	1.14	0.00
Oil (WTI)	56.38	0.7	AUD/NZD	1.0583	1.0621	1.0567	1.0620	Other (10 year yields)		
Coal (thermal)	80.45	0.9	AUD/EUR	0.6337	0.6367	0.6328	0.6354	Germany	-0.45	0.01
Coal (coking)	150.14	1.0	AUD/CNH	4.9219	4.9388	4.9151	4.9215	Japan	0.06	0.00
Iron Ore	152.69	5.8	USD Index	91.2	91.6	91.1	91.5	UK	0.44	0.07

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: Better than expected unemployment claims data in the US dominated markets. The Bank of England left policy and its bond-buying program unchanged and dashed hopes for an imminent move to negative rates.

Share Markets: US share markets moved higher in overnight trade after data showed new US unemployment claims fell to their lowest since November. Investors also digested earnings reports. The Dow closed up 332 points (or +1.1%) and the S&P 500 index finished 42 points higher (or +1.1%).

Interest Rates: US 2-year and 10-year bond yields were finished flat, but the 5-to-30-year curve steepened to almost 148 basis points, the widest since October 2015.

Foreign Exchange: The US dollar firmed against most G-10 currencies. The Australian dollar moved below USD0.7600 in overnight trade, against a broad strengthening of the US dollar.

The EUR/USD fell to a fresh two-month low of 1.1958 and the British pound spiked after the Bank of England (BoE) said negative rates weren't imminent.

Commodities: Oil gained, while gold lost more than 2%.

Australia: Australia's trade surplus bounced back in December to \$6.8bn, up from \$5.0bn in November. Exports lifted by 2.8%, driven primarily by gains in

rural goods and metal ores.

Rural goods are recovering from the previous drought. They posted a 18.4% increase in the month, centred on a spectacular 75% increase in cereals, which are up on improved seasonal conditions.

Metal ores rose 3.2%, boosted by the sharply higher iron ore price – associated with strong demand from China and weak ore supply from Brazil.

Imports dipped by 2.4%, holding on to most of the gains in November, when they surged by 9.3% on improved domestic demand as the economy reopens with the rolling back of COVID-19 restrictions.

A quarterly measure of business confidence improved to +14 points in the December quarter, up from -8.

Europe: Retail sales turned around in December in the euro zone region, rising 2.0%, after shrinking 5.7% in November. Annual growth improved also, to 0.6%, after contracting 2.2% in November.

New Zealand: Building permits lifted 4.9% in December, after a rise of 1.2% in November. An upturn in house prices and low interest rates are underpinning growth in building permits and construction.

A monthly survey of business confidence revealed an improvement to 11.8 in February, from 9.4 in

January.

United Kingdom: The Bank of England's (BoE's) Monetary Policy Committee (MPC) voted unanimously to keep its policy rate at 0.1% and not increase the size of its bond-buying programme. Following a survey of commercial lenders about the feasibility of negative interest rates, the BoE said it would prepare contingency plans for such a move. But the BoE added these plans would take six months. The BoE Governor said that the MPC was "clear that it did not wish to send any signal that it intended to set a negative bank rate at some point in the future".

The BoE also said the outlook for the economy remains unusually uncertain.

The GDP growth forecast for 2021 was reduced from 7.5% to 5.0%, but the economy was still forecast to "recover rapidly" toward pre-pandemic levels, with policymakers assuming that the vaccination program will lead to an unwinding of COVID-related restrictions. Inflation is expected to rise toward the 2% target during the spring. The BoE repeated that it will not tighten policy until there is evidence that progress is being made in eliminating space capacity and that the 2% inflation target is being met in a sustainable manner.

United States: The number of workers seeking unemployment benefits fell for the third straight week, a sign that layoffs have started to ease following an increase in January. Initial jobless claims fell to a two-month low of 779,000 last week, following a downwardly revised 812,000 in the prior week.

The final report for durable goods orders showed an upward revision. Durable goods orders for December were revised up to 0.5%, from the preliminary estimate of 0.2%. The outcome follows growth of 1.3% in November.

Factory orders for December beat market expectations, rising 1.1%, after growth of 1.3% in November.

Today's key data and events:

AU AiG Perform. of Services Index Jan prev 52.9 (8:30am)

AU Retail Sales (11:30am)

Nominal Retail Sales Dec Final exp -4.2% prev -4.2%

Retail Sales Volumes Q4 exp 1.5% prev 6.5%

AU RBA Statement on Monetary Policy (11:30am)

US Non-farm Payrolls Jan exp 100k prev -140k (12:30am)

US Unemployment Rate Jan exp 6.7% prev 6.7% (12:30am)

US Avg Hourly Earnings Jan exp 0.3% prev 0.8% (12:30am)

US Trade Bal. Dec exp -\$65.7bn prev -\$68.1bn (12:30am)

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.

Besa Deda, Chief Economist

Ph: 02-8254-3251

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist

Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316

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