Morning Report

bankSA

Thursday, 6 August 2020

Equities (close & % change)		
S&P/ASX 200	6,001.3	-0.6%
US Dow Jones	27,201.3	1.4%
Japan Nikkei	22,514.9	-0.3%
China Shanghai	3,540.3	0.2%
German DAX	12,660.3	0.5%
UK FTSE100	6,104.7	1.1%
Commodities (close & change)*		
CRB Index	148.7	0.8
Gold	2,019.2	42.2
Copper	6,459.0	-41.5
Oil (WTI)	42.1	0.4
Coal (thermal)	53.4	-0.8
Coal (coking)	113.3	-0.7
Iron Ore	112.3	0.7

Sydney Futures Exchange (close & change)				
	Last		Overnight Chg	
10 yr bond	99.14		-0.02	
3 yr bond	99.71		-0.01	
3 mth bill rate	99.90		0.00	
SPI 200	5,978.0		16	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.4	-	-	61.7
AUD/USD	0.7159	0.7241	0.7154	0.7189
AUD/JPY	75.70	76.41	75.67	75.95
AUD/GBP	0.5479	0.5506	0.5474	0.5484
AUD/NZD	1.0816	1.0862	1.0779	1.0821
AUD/EUR	0.6069	0.6095	0.6059	0.6064
AUD/CNH	4.9942	5.0214	4.9894	4.9924
USD Index	93.2	93.2	92.6	92.8

Interest rates (close & change)		
Australia		
90 day BBSW	0.10	0.00
2 year bond	0.26	0.00
3 year bond	0.26	0.00
3 year swap	0.19	0.00
10 year bond	0.82	-0.01
United States		
3-month T Bill	0.10	0.00
2 year bond	0.12	0.01
10 year bond	0.55	0.04
Other (10 year yields)		
Germany	-0.51	0.05
Japan	0.01	-0.01
UK	0.13	0.05

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: Sentiment lifted on hopes of fresh stimulus in the US and encouraging vaccine news. Equities and bond yields rose, as did riskier currencies. Gold prices closed above US$2,000 per ounce.

Share Markets: US stocks jumped overnight as investors took heart in positive vaccine news and hopes that lawmakers would agree to a stimulus deal by the end of the week. The S&P 500 closed higher for the fourth day in a row, up 0.6% overnight and now just 1.7% shy of its all-time high. The Dow Jones rose 1.4% while the NASDAQ rose 0.5%.

The ASX 200 fell 0.6% yesterday and futures are pointing to a relatively sedate start this morning.

Interest Rates: The US yield curve steepened amid a more positive outlook for the economy and as the US treasury expanded its plans to issue longer-term debt. The 10-year treasury yield rose 5 basis points to 0.55% while the 2-year bond rose 1 basis point to 0.12%.

In contrast, the Australian 10-year bond yield fell 1 basis point to 0.82% yesterday. The rest of the curve was flat, including the 3-year bond yield which remained at 0.26%.

Foreign Exchange: The US dollar weakened against most of its peers as expectations of further stimulus buoyed risk sentiment. The US dollar index fell to 92.8 this morning, near its session low of 92.6.

The Australian dollar benefited from the improvement in risk appetite and is trading at US$0.7189 this morning.

Commodities: Oil prices rose after EIA data showed crude stockpiles in the US fell by 7.4 million barrels last week to the lowest since April. Fresh stimulus hopes also supported prices. WTI crude oil futures rose US$0.4 per barrel to US$42.1, the highest since early March.

Gold prices closed at a record high, trading above US$2,000 for the first time ever. Demand for the precious metal was boosted overnight by a weaker US dollar and low bond yields.

Although falling in the early stages of the COVID-19 pandemic, gold prices are up more than 34% in the year to date.

COVID-19: The Department of Health reported 739 new cases yesterday, with 725 in Victoria alone. There were 12 new cases recorded in New South Wales with the source of one of those infections unknown.

Globally, cases rose by 206k yesterday, according to the World Health Organisation. It said that there have now been 18 million confirmed cases including 696k deaths.

Johnson & Johnson said it will supply 100 million doses of its experimental vaccine to the US while Moderna said it has collected about US$400 million in deposits for the vaccine it has in development.

Australia: The AiG performance of construction index rose from 35.5 in June to 42.7 in July, the highest since February, although the index is still below 50, signalling contraction. The AiG reported a further drop in apartment building activity. However, house builders said that demand for new houses and renovations was lifting from a low level in response to government support and easing restrictions outside of Victoria.

New lending partially recovered in June, reflecting the easing in COVID-19 restrictions. Improved confidence and increased movement of people have allowed activity to pick up within the housing market. Total new loans (excluding refinancing) rose 6.2% in June, following sharp declines over April and May of 5.0% and 10.2%, respectively.

Investor lending led the recovery in June, rising 8.1%. It was the first increase in six months and the largest in nearly four years. A further sign of housing conditions stabilising in June was a fall in rental vacancy rates, including Sydney and Melbourne.

Owner-occupier lending also rebounded, lifting 5.5% in June after a 10.2% decline in May. It was the biggest monthly increase in nearly five years.

The trend of strong growth in refinancing partly reversed in June. Refinancing fell 11.9% in the month, after rising to a record high in May. Mortgage holders have been searching for a better deal amid low interest rates.

There are major headwinds on the horizon for the housing market. The new and stricter lockdown measures will sharply dent turnover in Victoria and to a greater extent than over the June quarter. It will also result in a large loss of jobs. Moreover, there remains a long road to recovery as unemployment will remain high for some time.

China: The Caixin services PMI fell from 58.4 in June to 54.1 in July, but it has held above 50 for three consecutive months, signalling expansion.

Europe: The Markit services PMI for the euro zone was downgraded slightly in its final reading for July. The index fell to 54.7 from 55.1 in the preliminary estimate, but still signals an expansion in activity following a reading of 48.3 in June.

Separate data showed that retail spending improved by a further 5.7% in June following a 20.3% surge in May. Retail sales were initially hit hard by the containment measures in response to the COVID-19 pandemic. On an annual basis, retail sales were 1.3% higher in June.

United Kingdom: The final Markit-CIPS services PMI for July edged lower to 56.5 from 56.6 in the preliminary estimate. It confirms a return to growth in the services sector following three straight months of improvement from a series low 13.4 in April.

New Zealand: New Zealand's unemployment rate unexpectedly declined, from 4.2% in the March quarter to 4.0% in the June quarter. The median estimate was for the unemployment rate to rise to 5.6%. The decline in employment was also less than expected, falling 0.4% against the median expectation for a 2.0% drop. However, the fall in the unemployment rate masks the weakness in underlying labour market conditions as New Zealand entered stage 4 lockdown measures. A large proportion of people could not search for work during the lockdown. The underutilisation rate rose from 10.4% to 12.0%, the biggest increase since the series began in 2004, and highlights the sharp reduction in output from workers. Like Australia, a wage-subsidy scheme has prevented the unemployment rate from rising. The unemployment rate is still likely to rise this year, as the subsidy scheme expires and as those not in the labour force start searching for work.

United States: The recovery in the services sector gained momentum in July, according to business surveys. The ISM services index rose to 58.1 from 57.1 in June. It was the best reading since March 2019. The ISM said that performance among sectors varied greatly. Healthcare companies said they were scheduling just 50% capacity for surgeries while retailers said that "new orders and business activity were back to pre-pandemic levels".

Highlighting the expectations of a sustained recovery among businesses, the new orders measure rose to a record 67.7 in July from 61.6 in June. However, the employment component contracted further, declining to 42.1 in July from 43.1 previously.

The final reading of the Markit services PMI corroborated signs of recovery in the services sector, improving to 50.0 in July from a preliminary estimate of 49.6.

A private labour market report raised further concerns about the strength of the US labour market recovery. The ADP private payrolls report rose 167,000 in July, well below the consensus estimate of a 1.2 million increase and June's reading of 4.3 million.

Trade data released overnight showed the trade deficit shrinking slightly to $US50.7 billion in June from US$54.8 billion in May.

Meanwhile, policymakers continue to negotiate a stimulus deal. Republicans have said that they view Friday as the deadline to reach a deal. The $600 per week payment to the unemployed ended last week. Republicans have offered to extend payments but at a rate of $400 per week, while the Democrats are insisting on $600, according to news reports. Leader of the House of Representatives, Nancy Pelosi, said she was optimistic a deal will be reached.

Today's key data and events:

UK BoE Bank Rate exp 0.10% prev 0.10% (9.00pm)

EZ Ger. Factory Orders Jun exp 10.1% prev 10.4% (4pm)

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.

Nelson Aston, Economist
Ph: 02-8254-1316

Contact Listing

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

Senior Economist
Janu Chan
chanj@banksa.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@banksa.com.au
(02) 8254 1316