

Morning Report

Tuesday, 6 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,941.6	2.6%			Last	Overnight Chg		Australia		
US Dow Jones	28,148.6	1.7%	10 yr bond	99.09			-0.04	90 day BBSW	0.09	0.00
Japan Nikkei	23,312.1	1.2%	3 yr bond	99.78			0.00	2 year bond	0.18	0.00
China Shanghai	3,372.6	-0.2%	3 mth bill rate	99.92			-0.01	3 year bond	0.17	0.00
German DAX	12,828.3	1.1%	SPI 200	5,952.0			26	3 year swap	0.14	0.00
UK FTSE100	5,942.9	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.83	0.00
Commodities (close & change)*			TWI	60.8	-	-	0.0	United States		
CRB Index	147.4	3.3	AUD/USD	0.7161	0.7193	0.7159	0.7179	3-month T Bill	0.09	0.00
Gold	1,913.5	13.7	AUD/JPY	75.51	76.04	75.39	75.91	2 year bond	0.14	0.02
Copper	6,521.8	-32.5	AUD/GBP	0.5548	0.5559	0.5527	0.5532	10 year bond	0.78	0.08
Oil (WTI)	39.4	2.3	AUD/NZD	1.0794	1.0822	1.0781	1.0804	Other (10 year yields)		
Coal (thermal)	58.1	0.6	AUD/EUR	0.6116	0.6132	0.6090	0.6093	Germany	-0.51	0.03
Coal (coking)	144.9	3.3	AUD/CNH	4.8807	4.8531	4.8217	4.8238	Japan	0.03	0.01
Iron Ore	116.2	-0.8	USD Index	93.9	93.9	93.4	93.5	UK	0.29	0.04

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: Investor appetite for risk lifted overnight, spurred by rising expectations that the White House and Democrats may reach a stimulus deal. Global share market bourses and US government bond yields lifted overnight as a result. In Australia, all eyes turn to the RBA board meeting and Federal Budget later today.

Share Markets: US share markets climbed to a three-week high on optimism that the White House and Democrats will reach a stimulus deal. The Dow Jones closed 466 points firmer (or +1.7%) and S&P 500 finished 60 points higher (or +1.8%) to reach a 3-week high.

Interest Rates: US Treasury yields rose across the bond curve with the US yield curve steepening overnight. The US 2-year yield rose 2 basis points and the US 10-year yield jumped 8 basis points.

The Australian 3-year government bond yield (futures) traded around 99.77 (0.23%) while the 10-year future followed US yields and slipped to 99.09 (0.91%).

Foreign Exchange: The US dollar depreciated overnight against its G-10 peers, as investors' risk appetites improved. The AUD/USD was volatile within a narrow trading range overnight of 0.7159 to 0.7193 but remained within its recent trading ranges. It reflects investors keeping the AUD sidelined ahead of today's RBA board meeting and

the Federal Budget tonight.

Commodities: Oil recorded a firm jump overnight. Gold also advanced.

COVID-19: Victoria recorded 9 new cases yesterday. WA and NSW each had one new case but each of these were in hotel quarantine.

In other COVID-19 news, the World Health Organisation (WHO) estimated 10% of the global population may have been infected, outstripping the official estimates from governments around the world. New York City will shut schools and non-essential businesses in nine hotspots, while Paris was declared a maximum alert zone, with bars, dance halls and sports halls closing. Restaurants can stay open. The number of global infections overnight surpassed 35 million.

Australia: Today is Super Tuesday with the Reserve Bank board meeting today and the Federal government handing down its budget at 7:30pm tonight.

The RBA could deliver more stimulus as soon as today or wait until its November meeting to do so. We expect this stimulus to involve a 15 basis point cut to the cash rate and 3-year bond yield target to 0.10%, as well as cuts to the rates on the exchange settlement funds account and term funding facility. The implementation of a bond-buying program beyond the 3-year maturity can also not be ruled

out.

A recent survey of 36 economists in Australia by Reuters revealed 10 economists polled expect a cut to occur as soon as today. The majority expect a cut before the end of this year.

Fiscal support was critical in preventing a deeper recession in Australia, and we expect this fiscal support to be extended and enhanced tonight when the Federal Budget is handed down.

The 2020-21 Budget will be like no other. We estimate that the government will be forecasting a record-sized budget deficit of around \$240 billion, representing 12.5% of GDP.

But the most important aspects of the Budget will be the policies which the government plans to adopt to help the Australian economy repair and recover.

The Federal Budget is likely to include a bring-forward of personal income tax cuts, policies to boost business investment (including an extension of the instant-asset write off scheme), extensions and amendments to the JobSeeker and JobKeeper schemes, infrastructure investment increases, an extension of the HomeBuilder scheme and a bring forward of research funding for universities. Some stimulus has already been announced, such as the manufacturing strategy of \$1.2 billion has already been announced this week.

Yesterday, the AiG performance of construction index improved for September to 45.2, from 37.9 in August. However, the index remains below the critical level of 50, which indicates contraction in construction activity is likely over the next few months.

The monthly survey for business published by NAB showed that conditions and confidence improved in September. The conditions index lifted to 0, from -6 in August, and the confidence index lifted 4 points to -4.

The inflation gauge published by the Melbourne Institute rose 0.1% in September after a similar-sized rise in August. Annual growth remained steady at a soggy pace of 1.3%.

Eurozone: Retail sales rose 4.4% in August after a fall of 1.8% in July. The annual pace has also improved from a contraction of 0.1% in August to 3.7% growth in September.

The Sentix measure of investor confidence deteriorated to -8.3 in October, from -8.0 in September.

The final readings for the Markit purchasing

managers' indexes (PMI) for September improved modestly from the preliminary reading to 48.0 for services and 50.4 for composite.

United Kingdom: The final readings for the Markit PMIs for September improved moderately from the initial reading to 56.1 for services and 56.5 for composite.

United States: Growth in the services sector expanded in September. The monthly PMI manufacturing index from the Institute of Supply Management (ISM), a widely watched gauge of the nation's services sector, rose to 57.8 in September from 56.9 in August. The result was above median market expectations of 56.2 and the improvement was led by new orders. Employment also posted a solid gain. The employment sub index jumped to 51.8 in September, which is its highest since February. Readings above 50.0 suggests activity is likely to expand in the period ahead.

The final reading for the services PMI stayed steady at 56.0 for September while the composite PMI was revised down 0.1 points to 54.3.

Today's key data and events:

AU Trade Aug exp \$5.0bn prev \$4.6bn (11:30am)
 AU ANZ Job Advertisements Sep prev 1.6% (11:30am)
 AU RBA Board Meeting exp 0.25% prev 0.25% (2:30pm)
 AU Federal Budget (7:30pm)
 US JOLTS Job Openings Aug exp 6500 prev 6518 (1am)
 US Federal Reserve Chair Powell Address (1:40am)
 US Federal Reserve's Bostic Speech (5am)

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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