

# Morning Report

Monday, 7 September 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,925.5	-3.1%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	28,133.3	-0.6%	10 yr bond	99.03			-0.06	90 day BBSW	0.09	0.00
Japan Nikkei	23,205.4	-1.1%	3 yr bond	99.70			0.00	2 year bond	0.24	0.00
China Shanghai	3,516.6	-0.9%	3 mth bill rate	99.90			-0.01	3 year bond	0.26	0.00
German DAX	12,842.7	-1.6%	SPI 200	5,875.0			-36	3 year swap	0.17	0.00
UK FTSE100	5,799.1	-0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	-0.02
Commodities (close & change)*			TWI	62.3	-	-	62.0	<b>United States</b>		
CRB Index	149.7	-0.7	AUD/USD	0.7272	0.7299	0.7222	0.7285	3-month T Bill	0.10	0.00
Gold	1,933.9	3.0	AUD/JPY	77.21	77.53	76.77	77.42	2 year bond	0.14	0.02
Copper	6,724.5	150.8	AUD/GBP	0.5477	0.5499	0.5468	0.5493	10 year bond	0.72	0.08
Oil (WTI)	39.8	-1.6	AUD/NZD	1.0840	1.0857	1.0825	1.0846	<b>Other (10 year yields)</b>		
Coal (thermal)	54.0	-1.3	AUD/EUR	0.6137	0.6161	0.6125	0.6153	Germany	-0.47	0.02
Coal (coking)	113.3	0.0	AUD/CNH	4.9787	4.9907	4.9461	4.9825	Japan	0.04	0.00
Iron Ore	123.0	-1.3	USD Index	92.8	93.2	92.7	93.0	UK	0.26	0.03

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:** The correction in US equities continued for a second session. Nonetheless, non-farm payrolls presented mostly good news – there was another strong job increase and the unemployment rate fell further.

**Share Markets:** The bout of risk aversion extended over a second session on Friday. US equities fell – the S&P500 dropped 0.8% following the 3.5% fall in the previous session. Again, it was tech stocks which drove the swings. The Nasdaq dropped 1.3%.

Australian shares dropped 3.1% on Friday, after the weaker lead from the US on Thursday, and futures point to another weak start today.

**Interest Rates:** Despite the fall in share markets, yields on US treasuries climbed. Bond investors were encouraged by the ongoing improvement in the US labour market and the fall in the unemployment rate. Yields on US 10-year treasuries lifted 8 basis points to 0.72%.

**Foreign Exchange:** The US dollar index spiked upon the US jobs reports, but then lost those gains later on. Conversely, the Australian dollar dipped, but then recovered to be little changed.

**Commodities:** Oil prices fell, likely reflecting softer risk appetite and concerns of weaker global demand. On the weekend, Russia's Energy Minister, Alexander Novak said that global demand could fall by 9 to 10 million barrels per day this year due to

the COVID-19 pandemic.

Gold prices fell, helped by the more positive jobs data from the US.

**COVID-19:** Melbourne's Stage-four restrictions will be extended another two weeks till September 28. Premier Andrews also added that the curfew, travel limits and other restrictions will remain in place till October 26.

**Australia:** Retail spending rose for a third consecutive month following the crash in sales during April. In June, retail sales rose 3.3% to be up 12.0% over the year. To keep these numbers in perspective, we need to remember that monthly national retail sales figures rarely exceeded 1.0%, prior to the pandemic.

There were, once again, significant gains in those sectors hardest hit by lockdown measures. Sales of clothing, footwear & personal accessories rose a further a 7.1% in July following a 20.5% surge in June.

All States and territories saw retailing gain further in July, with the exception of Victoria (contracting 2.1%). Elsewhere, NSW saw an 5.9% lift in retail spending. Sales were up 5.8% in the ACT, 5.0% in Queensland, 4.2% in Tasmania, 3.8% in Western Australia, 3.1% in the Northern Territory and 2.9% in South Australia.

While the month's retail sales numbers were

strong, overall household consumption is likely to remain weak, as the data did not include a range of other services including travel. Normality will only resume in the longer term as restrictions are lifted and health solution are found. Looking ahead we need to be mindful of trends in employment and consumer sentiment, which will likely continue to weigh on consumer spending. In the meantime, these and other statistics will be buffeted by COVID-19 issues.

**Europe:** German factory orders rose 2.8% in July, below expectations for a 5.0% increase. It followed a rebound of 10.4% in May and 28.8% in June. The slowing pace of recovery will mean that rebounding to pre-pandemic levels of activity may take some time.

**United States:** Non-farm payrolls increased 1.371 million in August, continuing a string of improvement in the labour market since lockdown measures were enforced earlier in the year. The median expectation was for a 1.35 million gain. The unemployment rate edged down from 10.2% in July to 8.4% in August, further below the peak of 14.7%. However, the rate of improvement in the labour market has slowed at a time when the unemployment rate is still elevated. There also remain headwinds with the high number of cases in parts of the country.

In a radio interview on Friday, Fed Chair Powell said of the report as being “a good one” but also added that “we do think it will get harder from here – because of those areas of the economy that are so directly affected by the pandemic still”. On monetary policy, Powell said that the Fed would not “prematurely withdraw the support that we think the economy needs”.

**Today's key data and events:**

AU ANZ Job Ads Aug prev 16.7% (11.30am)

CH Trade Balance Aug prev US\$62.33bn

Exports Aug y/y prev 10.4%

Imports Aug y/y prev 1.6%

EZ Industrial Production Jul prev 8.9% (4.00pm)

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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