

Tuesday, 03 November 2020

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|------|--|---------|-------------|----------------------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 5,951.3 | 0.4% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 26,828.2 | 1.2% | 10 yr bond | 99.18 | | | 0.01 | 90 day BBSW | 0.05 | 0.00 |
| Japan Nikkei | 23,295.5 | 1.4% | 3 yr bond | 99.84 | | | 0.01 | 2 year bond | 0.11 | 0.00 |
| China Shanghai | 3,380.2 | 0.0% | 3 mth bill rate | 99.97 | | | 0.00 | 3 year bond | 0.12 | 0.00 |
| German DAX | 11,788.3 | 2.0% | SPI 200 | 5,947.0 | | | 12 | 3 year swap | 0.09 | 0.00 |
| UK FTSE100 | 5,655.0 | 1.4% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 0.82 | -0.01 |
| Commodities (close & change)* | | | TWI | 59.5 | - | - | 59.3 | United States | | |
| CRB Index | 145.9 | 1.2 | AUD/USD | 0.7028 | 0.7057 | 0.6991 | 0.7054 | 3-month T Bill | 0.09 | 0.00 |
| Gold | 1,894.4 | 15.5 | AUD/JPY | 73.56 | 73.96 | 73.19 | 73.93 | 2 year bond | 0.16 | 0.00 |
| Copper | 6,757.0 | 43.3 | AUD/GBP | 0.5433 | 0.5466 | 0.5414 | 0.5465 | 10 year bond | 0.85 | -0.02 |
| Oil (WTI) | 37.0 | 1.2 | AUD/NZD | 1.0625 | 1.0643 | 1.0602 | 1.0639 | Other (10 year yields) | | |
| Coal (thermal) | 59.9 | 0.6 | AUD/EUR | 0.6035 | 0.6065 | 0.6009 | 0.6064 | Germany | -0.64 | -0.01 |
| Coal (coking) | 128.1 | -0.6 | AUD/CNH | 4.7062 | 4.7199 | 4.6809 | 4.7187 | Japan | 0.05 | 0.00 |
| Iron Ore | 114.5 | 1.4 | USD Index | 94.0 | 94.3 | 94.0 | 94.1 | UK | 0.22 | -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: The US election continues to be the centre of attention worldwide. Both candidates have been campaigning in the key states with less than 24 hours before the election.

Polls continue to indicate a Biden win, especially in the swing states of Florida, Ohio and Pennsylvania.

Manufacturing purchasing managers' indices (PMIs) were released around the globe. Most were stronger than expected, suggesting conditions and expectations are more optimistic than anticipated.

Share Markets: The S&P500 rose 0.4% overnight, while the Dow was up 1.2%.

European equities rose sharply after favourable data on expectations were released (PMIs). The Euro Stoxx 50 rose 2.1%, while the German DAX was up 2.0%. The UK FTSE100 (+1.4%) also reacted positively to Boris Johnson announcing further grants for self-employed workers.

The ASX200 started the week well and rose 0.4%, after a 3.8% decline last week.

Interest Rates: The US 10-year bond rate declined 2 basis point, to 0.85%. The Australian counterpart fell 1 basis point to 0.82%. The shorter end of the yield curve remained stable.

Foreign Exchange: The AUD/USD continued to test its 0.7000 support level. Overnight, the Aussie rebounded from its three-month low of 0.6991, and

currently sits at 0.7054.

Commodities: Oil clawed back from earlier losses and now trades at US\$37 (up 3.24%). Increasing production in Libya, lockdowns in Europe and the US elections exerted downward pressure on oil prices. However, Russia's pressure to postpone OPEC's planned output hike in January overcame these downward forces.

Precious metals rose across the board, including gold (+0.82%).

Australia: The October AiG performance of manufacturing index revealed Australian companies are more optimistic. The index rose 9.6 points, to 56.3.

The housing sector in Australia has shown signs of strength, suggesting its correction may be over.

Building approvals soared 15.4% in September, bringing numbers back to pre-COVID levels. Private house approvals increased 9.7% and apartment approvals were up 23.4%. Monthly, the strength was observed across all states.

New housing lending rose for the fourth consecutive month in September. Total new loans rose 5.9% after a 12.6% increase in August. Owner-occupier lending continues to lead the charge, rising 6.0% in September. This result suggests there has been significant pent-up demand in the sector.

Further evidence of the outperformance of the

housing market came through with house prices for October. They were up 0.4% in the month and 0.2% across the combined capital cities. These gains were widespread (except for Melbourne) and hints that Australians are flocking to regional areas.

The ANZ Job Advertisements index for October rose 9.4% with nearly 130,000 ads being published. This is still 16.2% lower than last year's October reading.

The Melbourne Institute inflation rate for October was down 0.1%, bringing the annual rate to 1.1%. The trimmed mean annual rate stands at negative 0.1%, well below the RBA's 2-3% target.

The Reserve Board will meet later today. We believe the cash rate, the 3-year target bond rate and the Term Facility Fund rate will all fall from 0.25% to 0.10%. Additionally, we expect the RBA to expand its bond-buying program and purchase longer-term securities.

China: The October Manufacturing PMI rose to 53.6. This result suggests continued recovery of smaller firms and strength in exports.

Europe: Markit Manufacturing PMI for the Euro Zone increased 0.4 points in October, reaching 54.8. This is the highest reading since July 2018.

Japan: The Japanese economy continues to exhibit signs of recovery, after a record contraction in economic activity. The Jibun Bank Manufacturing PMI increased 0.7 points, to 48.7 in October.

Annual car sales jumped 31.6% in October, the fastest pace in more than eight years.

New Zealand: Home-building approvals rose 3.6% in September after a 0.2% increase in August. Nearly 3,300 dwellings were approved. The strength came mostly from stand-alone houses at 1,940 units (+6.9%).

United States: The ISM manufacturing index (a similar index to the manufacturing PMI) reached 59.3 in October. This is the highest reading since September 2018. Better expectations around employment were also reported. The Markit Manufacturing PMI rose 0.1 points to 53.4 in October.

Construction spending increased by a modest 0.3% in September, after a 0.8% rise in August.

Today's key data and events:

AU RBA Policy Decision exp 0.10% prev 0.25% (2:30pm)

US Factory Orders Sep exp 0.3% prev 0.7% (2:00am)

US Durable Goods Orders Sep Final (2:00am)

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.

Felipe Pelaio, Economist

Ph: 02-8254-0646

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Hans Kunnen

hans.kunnen@bankofmelbourne.com.au

(02) 8254 1316

Economist

Felipe Pelaio

felipe.pelaio@bankofmelbourne.com.au

(02) 8254 0646

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.