

Friday, 11 September 2020

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |                      |        |             | Interest rates (close & change) |       |       |
|--|----------|-------|--|---------|----------------------|--------|-------------|---------------------------------|-------|-------|
| S&P/ASX 200                              | 5,908.5  | 0.5%  | <b>Last</b>                              |         | <b>Overnight Chg</b> |        |             | <b>Australia</b>                |       |       |
| US Dow Jones                             | 27,534.6 | -1.5% | 10 yr bond                               | 99.07   |                      | 0.02   | 90 day BBSW | 0.09                            | 0.00  |       |
| Japan Nikkei                             | 23,235.5 | 0.9%  | 3 yr bond                                | 99.71   |                      | 0.00   | 2 year bond | 0.22                            | -0.02 |       |
| China Shanghai                           | 3,390.3  | -0.6% | 3 mth bill rate                          | 99.88   |                      | -0.01  | 3 year bond | 0.25                            | 0.00  |       |
| German DAX                               | 13,208.9 | -0.2% | SPI 200                                  | 5,830.0 |                      | -79    | 3 year swap | 0.17                            | 0.00  |       |
| UK FTSE100                               | 6,003.3  | -0.2% | FX Last 24 hrs                           | Open    | High                 | Low    | Current     | 10 year bond                    | 0.93  | 0.04  |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 61.8    | -                    | -      | 61.8        | <b>United States</b>            |       |       |
| CRB Index                                | 146.2    | -0.9  | AUD/USD                                  | 0.7281  | 0.7248               | 0.7325 | 0.7258      | 3-month T Bill                  | 0.10  | -0.01 |
| Gold                                     | 1,945.1  | -1.0  | AUD/JPY                                  | 77.32   | 76.93                | 77.74  | 77.04       | 2 year bond                     | 0.14  | -0.01 |
| Copper                                   | 6,686.0  | -65.5 | AUD/GBP                                  | 0.5603  | 0.5579               | 0.5688 | 0.5671      | 10 year bond                    | 0.68  | -0.02 |
| Oil (WTI)                                | 37.0     | -1.1  | AUD/NZD                                  | 1.0897  | 1.0876               | 1.0936 | 1.0919      | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                           | 53.2     | 1.3   | AUD/EUR                                  | 0.6168  | 0.6130               | 0.6172 | 0.6143      | Germany                         | -0.43 | 0.03  |
| Coal (coking)                            | 114.0    | 0.0   | AUD/CNH                                  | 4.9738  | 4.9611               | 4.9996 | 4.9679      | Japan                           | 0.03  | 0.00  |
| Iron Ore                                 | 120.9    | -0.4  | USD Index                                | 93.2    | 92.7                 | 93.5   | 93.4        | UK                              | 0.23  | -0.01 |

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:** Risk aversion rose slightly overnight, leading to declines in share markets and a rise in government bond yields. The US dollar was also stronger. US jobs data was disappointing and the failure of the US fiscal stimulus bill to pass through the Senate overnight likely contributed to the risk-averse tone.

**Share Markets:** US share markets reversed course and fell, spurred by a fresh sell-off in tech shares. The S&P 500 index fell 60 points (or -1.8%) and the Nasdaq dropped 222 points (or -2.0%). It was the third straight day the S&P 500 declined by more than 1%.

**Interest Rates:** The US 2-year treasury yield fluctuated between 0.14% and 0.15%. The US 10-year bond yield initially rose from 0.70% to 0.72%, before falling to 0.68%.

The Australian 3-year government bond yield (futures) traded around 0.29% while the 10-year yield fell from 0.97% to 0.92%.

**Foreign Exchange:** The US dollar index was modestly firmer in the overnight session. EUR/USD initially jumped from 1.1840 to 1.1917 after comments from the European Central Bank implied little concern about the level of the euro, but later fell with the risk averse mood to 1.1810. The worst performer was the GBP, which fell from 1.3030 to a two-month low of 1.2774 against the US dollar, as

Brexit tensions between the UK and EU escalated.

**Commodities:** Commodities were mostly lower overnight, reflecting the more risk-averse mood among investors.

**Australia:** The Melbourne Institute's measure of expectations for consumer inflation ticked up to 3.1% in September, a slight increase in the 3.3% reported in August. Expectations are now back down to levels seen from 2015 until the COVID pandemic was announced in March 2020. Expectations of inflation sat at 4.6% in April this year.

**Europe:** The European Central Bank (ECB) kept policy on hold. The central bank tempered its forecast for the economic contraction this year to -8% from a June forecast of -8.7%. But growth next year will be 5%, down from 5.2% previously forecast. Headline inflation is expected to remain negative in coming months and turn positive early next year. ECB President Christine Lagarde said euro-area manufacturing continued to improve and economic data suggest a strong rebound. Still, Lagarde said ample stimulus is needed and uncertainty is elevated.

**United Kingdom:** The EU/UK extraordinary Joint Committee meeting on Brexit ended with the EU releasing a rather terse official response and demands for the UK to alter the proposed Internal

Markets Bill within 30 days.

**United States:** The number of Americans filing for new jobless benefits unexpectedly failed to fall back last week, coming in at 884,000, the same as the prior week's revised figure. Consensus was for a decline to 850,000. Continuing claims also disappointed, rising to 13.4 million from 13.3 million.

The producer price index (PPI) increased by 0.3% in August from a month earlier after a 0.6% gain in July. Consensus expectations were for a rise of 0.2%. On a year earlier, the PPI fell 0.2%, which is the smallest decline in five months. Excluding volatile food and energy components, the core PPI rose 0.4% from a month earlier and was up 0.6% from August 2019.

The figures signal producers are becoming slightly more successful passing along higher raw materials costs to their customers, as the recovery from the pandemic-related lockdown continues. While recent data have shown an acceleration in consumer prices, returning inflation to the Federal Reserve 2% target will likely be a slow process.

The US Senate failed to pass its \$500 billion fiscal stimulus bill, which was the expected result given the Democrats were seeking a \$2.2 trillion bill. The failure suggests more stimulus is unlikely to be deployed any time soon.

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

EZ CPI Aug final prev m/m -0.4%, y/y -0.2% (4.00pm)

NZ BusinessNZ Mfg PMI Aug prev 58.8 (8.30am)

US CPI Aug exp 0.3% prev 0.6% (10.30pm)

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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