

Friday, 13 November 2020

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |             |                      |         | Interest rates (close & change) |       |       |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|-------|-------|
| S&P/ASX 200                              | 6,418    | -0.5% |  |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |       |       |
| US Dow Jones                             | 29,080   | -1.1% | 10 yr bond                               | 99.12   |             | 0.03                 |         | 90 day BBSW                     | 0.02  | 0.00  |
| Japan Nikkei                             | 25,521   | 0.7%  | 3 yr bond                                | 99.83   |             | 0.00                 |         | 2 year bond                     | 0.10  | 0.00  |
| China Shanghai                           | 3,499    | -0.1% | 3 mth bill rate                          | 99.98   |             | 0.00                 |         | 3 year bond                     | 0.11  | 0.00  |
| German DAX                               | 13,053   | -1.2% | SPI 200                                  | 6,394.0 |             | -36                  |         | 3 year swap                     | 0.11  | -0.01 |
| UK FTSE100                               | 6,339    | -0.7% | FX Last 24 hrs                           | Open    | High        | Low                  | Current | 10 year bond                    | 0.89  | -0.03 |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 61.1    | -           | -                    | 61.0    | <b>United States</b>            |       |       |
| CRB Index                                | 153.0    | -0.6  | AUD/USD                                  | 0.7282  | 0.7294      | 0.7230               | 0.7234  | 3-month T Bill                  | 0.09  | -0.01 |
| Gold                                     | 1,876.74 | 11.0  | AUD/JPY                                  | 76.76   | 76.83       | 75.99                | 76.04   | 2 year bond                     | 0.17  | -0.01 |
| Copper                                   | 6,916.75 | 48.0  | AUD/GBP                                  | 0.5510  | 0.5534      | 0.5501               | 0.5512  | 10 year bond                    | 0.88  | -0.09 |
| Oil (WTI)                                | 40.92    | -0.5  | AUD/NZD                                  | 1.0575  | 1.0589      | 1.0547               | 1.0574  | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                           | 62.80    | 0.3   | AUD/EUR                                  | 0.6181  | 0.6188      | 0.6126               | 0.6127  | Germany                         | -0.54 | -0.03 |
| Coal (coking)                            | 106.86   | -0.1  | AUD/CNH                                  | 4.8189  | 4.8202      | 4.7816               | 4.7869  | Japan                           | 0.03  | -0.01 |
| Iron Ore                                 | 119.85   | -1.3  | USD Index                                | 93.0    | 93.1        | 92.8                 | 93.0    | UK                              | 0.35  | -0.07 |

Data as at 8:45am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg.

**Main Themes:** The euphoria surrounding the encouraging vaccine news earlier this week may be premature. Three of the world's top central bankers warned that there is still a long way to go in defeating COVID-19. This warning, record infection numbers and setbacks in US stimulus negotiations soured market sentiment.

**Share Markets:** US equity markets fell overnight. The Dow Jones declined 1.1% and the S&P500 fell 1.0%.

European equities also fell. The Euro Stoxx contracted 1.1% and the DAX declined 1.2%. The FTSE 100 fell 0.7% amid worse-than-expected activity data and concerns over the virus.

**Interest Rates:** The US yield curve flattened overnight. The 2-year bond rate fell 1 basis point to 0.17% while the 10-year rate declined 9 basis points to 0.88%.

Similar movements were observed in the Australian yield curve. The 3-year bond rate declined 1 basis point to 0.11% and the 10-year rate was down 3 basis points, reaching 0.89%

**Foreign Exchange:** The US dollar index was volatile overnight within a narrow trading range.

The Australian dollar moved lower against the US dollar overnight, from a high of 0.7294 to a one-week low of 0.7230. It is currently trading near this low.

**Commodities:** Gold and copper were firmer, but oil prices declined. A surprise jump in US crude stockpiles countered optimism around OPEC's potential delay to an output hike.

**COVID-19:** Western Australia's hard border lifts at midnight tonight.

The US reached a new daily record in the number of infections, with 152,255 cases overnight. Hospitalisations are also at a record high. Cases in New daily infections in Europe are little changed over the week, but specialists warned it is too early to speak of a stabilising trend. Worldwide, 1.3mn deaths were registered, a new daily record.

**Australia:** The Tasmanian State government delivered its 2020-21 Budget yesterday. Further stimulus spending and declining revenues is set to widen the State Budget deficit to \$1.1 billion in 2020-21. Net debt is also on the rise.

The State government will invest a record \$5bn in infrastructure, mostly on upgrading existing roads and bridges (\$2.4bn). Businesses will receive extensions of the payroll tax rebate schemes for young workers, apprentices and trainees. These schemes will be available to all industry sectors.

The Melbourne Institute released its consumer inflation expectations gauge for November. Consumers expect a 3.5% inflation rate over the next twelve months. This result is slightly higher

than the 3.4% outcome registered in October.

**Euro zone:** Industrial production fell 0.4% in September, after a 0.6% rise in August, driven down by a sharp fall in Italian output. Markets expected a positive reading for September. Despite the contraction in the region, some of the larger economies of Germany (+1.7%), France (+1.5%) and Spain (+0.6%) recorded gains in production in September.

The European Central Bank (ECB) indicated that the economic recovery in the region is losing momentum. In its latest Economic Bulletin, the ECB noted that the imposition of new COVID-19 restrictions is expected to deteriorate economic activity in the near term.

**New Zealand:** Permanent net migration in September declined from 1,144 in August to 808. The pandemic has sharply decreased net migration worldwide, NZ included. In 2019, the average monthly net migration was around 4,100. Lower levels of migration could hold back future economic growth.

**United Kingdom:** The British economy grew 15.5% in the September quarter, following a 19.8% plunge in the June quarter. It is the highest quarterly increase on record. On a year ago, UK GDP fell 9.6%. The introduction of fresh restrictions following the surge in COVID-19 infections will make the path to recovery more challenging.

The trade surplus narrowed to £0.6bn in September, after a £2.9bn surplus registered in August. This narrowing comes as exports rose 3.3% in September while imports climbed 10.2%.

Industrial production rose 0.5% in September, well below market expectations. In the year to September, industrial production declined 6.3%.

**United States:** Federal Reserve Chair Powell stated that the US economy continues to recover but this recovery will depend on the suppression of the virus. He added “the next few months could be challenging”. He also expressed concerns for the long-term effects of the pandemic on employment, indicating that stimulus measures will be here for longer. He added he believes more monetary and fiscal stimulus are necessary.

The consumer price index (CPI) was unchanged in October, taking the year-on-year rate down from 1.4% to 1.2%. The main drivers of this soft result were used vehicle prices (falling 0.1% in the month) and apparel (declining 1.2% in October). The core CPI measure was also flat in October; the annual rate also fell, from 1.7% in September to 1.6% in

October.

Initial jobless claims for the week ending November 7 fell to 709,000, a drop of 48,000 from the previous week. Although this level is still high by historical standards, the outcome surprised markets positively. This result suggests a gradual recovery in the labour market is continuing, despite the recent record surge in coronavirus infections.

Bloomberg reported that the Trump administration is stepping back from negotiations on a new stimulus package, leaving it to Senate Majority Leader McConnell to revive the stalled talks with House Speaker Nancy Pelosi. McConnell’s position on stimulus has been further away from the Democrats’ \$2.4 trillion proposal than that of lead-Republican negotiator, Treasury Secretary Steven Mnuchin. Pelosi and Senate Democratic leader Chuck Schumer reiterated their call for a large package. It means there are lower odds of a breakthrough on negotiations before January.

#### Today’s key data and events:

NZ BusinessNZ Mfg PMI Oct prev 54 (8:30am)  
 AU Overseas Arrivals & Depart. Oct (11.30am)  
 EZ Trade Balance Sep exp €22.5bn prev €21.9bn (9:00pm)  
 EZ GDP Q3 exp 12.7% prev -11.8% (9:00pm)  
 EZ Employment q/q Sep prev -2.8% (9:00pm)  
 US PPI Oct Final y/y exp 0.2% prev 0.4% (12:30am)  
 US UoM Consumer Sentiment Nov Prel. exp 82.0 prev 81.8 (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.

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