

Friday, 14 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,091.0	-0.7%			Last	Overnight Chg		Australia		
US Dow Jones	27,896.7	-0.3%	10 yr bond	99.05		-0.05	90 day BBSW	0.10	0.00	
Japan Nikkei	23,249.6	1.8%	3 yr bond	99.69		0.00	2 year bond	0.26	0.00	
China Shanghai	3,480.7	0.0%	3 mth bill rate	99.90		0.00	3 year bond	0.25	-0.01	
German DAX	12,993.7	-0.5%	SPI 200	6,044.0		-3	3 year swap	0.21	0.00	
UK FTSE100	6,185.6	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	-0.03
Commodities (close & change)*			TWI	61.3	-	-	61.6	United States		
CRB Index	148.9	0.6	AUD/USD	0.7160	0.7188	0.7136	0.7146	3-month T Bill	0.09	-0.01
Gold	2,019.2	42.2	AUD/JPY	76.52	76.70	76.32	76.42	2 year bond	0.16	0.00
Copper	6,435.0	50.5	AUD/GBP	0.5493	0.5500	0.5464	0.5473	10 year bond	0.72	0.04
Oil (WTI)	42.4	-0.3	AUD/NZD	1.0887	1.0922	1.0885	1.0917	Other (10 year yields)		
Coal (thermal)	55.2	0.4	AUD/EUR	0.6076	0.6085	0.6047	0.6050	Germany	-0.41	0.04
Coal (coking)	112.1	-0.9	AUD/CNH	4.9646	4.9848	4.9615	4.9665	Japan	0.04	-0.01
Iron Ore	115.7	-0.6	USD Index	93.4	93.4	92.9	93.3	UK	0.24	0.01

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 8:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Investors weighed the impasse in US stimulus negotiations and signs of an economic recovery. Equities stalled in quiet trading.

Share Markets: US equities retreated from near their record highs in a choppy overnight session on low volume. The S&P 500 ended the session 0.2% lower while the Dow Jones fell 0.3%, dragged down by weak earnings guidance from Cisco Systems.

The NASDAQ closed 0.3% higher as tech stocks mostly outperformed. Apple shares rose 1.8% after it announced a series of subscription bundles dubbed "Apple One" and launched a huge debt raising.

In Australia, the ASX 200 fell 0.7% yesterday, led by an 8.3% fall in Telstra after it delivered weaker-than-expected earnings guidance.

Interest Rates: The long end of the US treasury yield curve rose following improved labour market data and a poorly subscribed 30-year treasury auction. The 10-year treasury yield rose 4 basis points to 0.72%.

In contrast, the Australian 10-year government bond yield declined 3 basis points to 0.89% yesterday. The 3-year bond yield edged lower to 0.25% while the 90-day bank-bill swap rate remained at 0.10%.

Foreign Exchange: The US dollar weakened against its major peers as the US fiscal stimulus stalemate

continued. Some of that weakness reversed following better-than-expected initial claims data. The US dollar index is at 93.3 this morning from 93.4 yesterday.

The AUD/USD pair stuck to its recent trading range with an overnight high of 0.7188 and an overnight low of 0.7136. Again overnight the AUD has found it hard to break above resistance at around 0.7190. The USD index also strengthened during New York trade, encouraging AUD selling near the 0.7190 handle. The AUD/USD is currently trading at around 0.7150.

Commodities: WTI crude oil prices fell by US\$0.3 per barrel to US\$42.4 after forecasts for demand were cut. The IEA reduced its forecasts for oil consumption over 2020 and 2021. The second half of 2021 saw the biggest downgrades, with forecasts reduced by 500,000 barrels per day to 95.3 million barrels per day over the period.

COVID-19: The Department of Health said there were 292 new cases of COVID-19 across Australia yesterday, with 278 in Victoria, 12 in NSW and 2 in Western Australia.

New Zealand reported 14 new cases in Auckland, all linked to the same family cluster. The city is in its second day of a three-day lockdown in response to the cluster.

Australia: There was another bumper month of

employment in July as more Australians found work, despite escalating COVID-19 infections in Victoria. Employment surged 114.7k, the second largest monthly increase on record, trailing only the 228.4k increase registered in June. Nevertheless, employment remains 532k (or 4.1%) below its February level.

The unemployment rate continued its upward trajectory as more Australians entered the labour force. There was a 0.1 percentage point increase in the unemployment rate to 7.5% in July, the highest since November 1998.

The participation rate recorded another increase to 64.7% in July from 64.1% in June, as more potential workers re-joined the labour force.

Other measures of the labour market were encouraging. Hours worked increased by 1.3% in July after rising 4.2% in June. Underemployment decreased for the third consecutive month to 11.2% in July, further below the peak of 13.8% in April.

The further rebound in jobs and hours worked is an encouraging indication that the labour market recovery that started in June maintained momentum in July. However, August will be a sterner test as Victoria entered a stage 4 lockdown and growing clusters emerged in NSW. We expect that the unemployment rate will rise further and will stay high for some time.

Europe: The French unemployment rate fell to 7.1% in Q2 from 7.8% in Q1. It was the lowest unemployment rate in 37 years, however, the data was skewed by the strict lockdown stopping people from being able to seek work and therefore not counting as unemployed.

New Zealand: Food prices rose 1.2% over the month in July following a 0.5% increase in June. Fresh fruit and vegetables surged 9.8% while meat, poultry & fish prices rose 0.5%.

United Kingdom: The rebound in the housing market continued in July, according to RICS. The house price balance index rose by more than expected to +12 in July from -13 in June, signalling that house prices rose over the month for the first time since the pandemic began. The report said that respondents reported an increasing proportion of buyers looking for houses with access to green spaces, gardens or balconies, which would help them cope with future lockdowns.

World: Israel and the UAE said they had reached an agreement to open talks about fully restoring relations. Israel agreed to suspend plans to annex parts of the West Bank. Palestine rejected the deal,

labelling it a betrayal.

United States: Initial weekly claims for unemployment were lower than expected in the week ending August 8, falling to 963k from 1191k previously. It was the first time weekly claims have been below 1 million since the pandemic began. Continuing claims slipped to 15.5 million from 16.1 million in the prior week. It is likely that the expiration of the US\$600 weekly unemployment benefit boost deterred some from claiming benefits. Despite the improvement, the number of people claiming unemployment remains well above the levels prevailing before the pandemic and still above the highest points reached during the GFC.

The better-than-expected initial claims data injected a note of uncertainty into markets because it lessened the impetus for lawmakers to agree on further stimulus measures. Republicans and Democrats are still at an impasse with negotiations. The size of the stimulus extension remains the main sticking point. The Democrats want US\$3 trillion in spending versus the Republican push for US\$1 trillion. President Trump said the White House and the Democrats also disagreed on additional funding for the US Postal Service to facilitate in-mail voting for the upcoming presidential election.

Today's key data and events:

CH New Home Prices Jul prev 0.58% (11:30am)
 CH Industrial Production Jul exp 5.2% prev 4.8% (12pm)
 CH Retail Sales Jul y/y exp 0.1% prev -1.8% (12pm)
 EZ Trade Jun exp €14.5bn prev €8.0bn (7pm)
 EZ Employment Q2 prev -0.2% (7pm)
 EZ GDP Q2 exp -12.1% prev -12.1% (7pm)
 US Retail Sales Jul exp 2.0% prev 7.5% (10:30pm)
 US Ind. Production Jul exp 3.0% prev 5.4% (11:15pm)
 US UoM Cons. Sentiment Aug exp 71.9 prev 72.5 (12am)

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.

Nelson Aston, Economist

Ph: 02-8254-1316

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@bankofmelbourne.com.au

(02) 8254 1316

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