

Monday, 14 December 2020

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|--------|--|---------|-------------|----------------------|-------------|---------------------------------|-------|-------|
| S&P/ASX 200 | 6,643 | -0.6% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 30,046 | 0.2% | 10 yr bond | 99.05 | | 0.03 | 90 day BBSW | 0.02 | 0.00 | |
| Japan Nikkei | 26,653 | -0.4% | 3 yr bond | 99.82 | | 0.00 | 2 year bond | 0.09 | 0.00 | |
| China Shanghai | 3,508 | -0.8% | 3 mth bill rate | 99.97 | | -0.01 | 3 year bond | 0.11 | -0.01 | |
| German DAX | 13,114 | -1.4% | SPI 200 | 6,630.0 | | -1 | 3 year swap | 0.15 | -0.01 | |
| UK FTSE100 | 6,547 | -0.8% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 0.99 | 0.00 |
| Commodities (close & change)* | | | TWI | 61.9 | - | - | 62.6 | United States | | |
| CRB Index | 161.2 | -0.1 | AUD/USD | 0.7537 | 0.7572 | 0.7520 | 0.7557 | 3-month TBill | 0.06 | -0.01 |
| Gold | 1,839.85 | 3.3 | AUD/JPY | 78.56 | 78.78 | 78.19 | 78.63 | 2 year bond | 0.12 | -0.02 |
| Copper | 7,755.50 | -106.3 | AUD/GBP | 0.5671 | 0.5738 | 0.5642 | 0.5656 | 10 year bond | 0.90 | -0.01 |
| Oil (WTI) | 46.57 | -0.2 | AUD/NZD | 1.0623 | 1.0657 | 1.0606 | 1.0641 | Other (10 year yields) | | |
| Coal (thermal) | 81.50 | 1.9 | AUD/EUR | 0.6209 | 0.6234 | 0.6195 | 0.6219 | Germany | -0.64 | -0.03 |
| Coal (coking) | 101.29 | 0.0 | AUD/CNH | 4.9274 | 4.9419 | 4.9141 | 4.9404 | Japan | 0.01 | 0.00 |
| Iron Ore | 157.82 | 3.2 | USD Index | 90.8 | 91.0 | 90.6 | 91.0 | UK | 0.17 | -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: A US stopgap spending measure was passed by Congress to avoid a shutdown, but a stimulus deal has still not been inked. Brexit talks are set to continue beyond the original deadline. The Australian dollar recorded a fresh 2½-year high against the US dollar.

Share Markets: US share markets pared losses after a stopgap spending bill was passed. The Dow Jones closed 47 points higher (or +0.2%) but the S&P 500 index dropped 5 points (or -0.1%). The Nasdaq finished 28 points lower (or -0.2%). US Congress passed a stopgap spending measure to avoid a shutdown but there was little progress made on a stimulus deal.

Interest Rates: Global bond yields moved lower on Friday. The US 2-year bond yield dropped 2 basis points and the US 10-year yield fell 1 basis points. The bond yields of Europe's major economies also fell.

Foreign Exchange: The AUD continued to appreciate against the US dollar, reaching a fresh 2½-year high of 0.7572. The price action (or technical picture) suggests the AUD/USD will continue to move higher. We flagged on November 30 that we expected the AUD/USD to stretch to as high as 0.7700 in the near term. We continue to hold these expectations. We also expect the AUD/USD to reach 0.8000 by early next year.

In other currencies, a notable mover was the pound. The GBP/USD jumped sharply, from a Friday low of 1.315 to a high of 1.3412 in the wake of news that Brexit talks would continue.

Commodities: Oil fell but the price of gold rose.

COVID-19: The head of the US government's vaccine drive believes as many as 80% of the US population could be vaccinated by America's next summer, putting herd immunity within reach.

Germany will enter a hard lockdown from this Wednesday. **Australia:** There was no major economic data released on Friday in Australia.

New Zealand: The business manufacturing purchasing managers' index (PMI) rose 55.3 in November, from 52.4 in October. A result above 50 suggests an expansion in manufacturing activity is likely in the months ahead.

United Kingdom: UK's Prime Minister Boris Johnson and President of the European Commission Ursula von der Leyen agreed to let Brexit talks continue past Sunday's deadline after speaking by phone. In a joint statement, they said that "despite the exhaustion after almost a year of negotiations" they would "go the extra mile."

United States: Americans grew more confident in the economy in late November and early December. The University of Michigan's consumer sentiment index rose to 81.4 in the two weeks

ended December 9, from 76.9 in November. The outcome was well above consensus expectations, which centred on a result of 76.0. There were both rosier expectations for the economic outlook and an improvement in respondents' views on current economic conditions. The buoyant share market and promising news on a COVID-19 vaccine is likely to have contributed to the higher results.

Headline producer prices rose by 0.1% in November. They also lifted by 0.1% when food and energy prices were excluded (i.e. core rate). The annual rates improved; headline producer prices rose to 0.8% and core producer prices increased to 1.4%. The outcomes indicate that wholesale inflation remains muted and is unlikely to stir inflationary pressures further down the inflation pipeline.

A bipartisan group of lawmakers are expected to unveil a pandemic relief bill worth \$908 billion later today. However, according to Senator Joe Manchin it is unknown if this bill will get through Congress. Manchin expressed confidence that some sort of legislation will pass before the holidays but did not address how to resolve Republican demands for a business liability shield.

Today's key data and events:

NZ Performance of Services Index Nov prev 51.8 (8:30am)

UK Rightmove House Prices Dec prev -0.5% (11:01am)

CH New Home Prices Nov prev 0.15% (12:30pm)

EZ Industrial Production Oct exp 2.0% prev -0.4% (9pm)

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.

Besa Deda, Chief Economist

Ph: 02-8254-3251

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

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.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
