

Wednesday, 14 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,195.7	1.0%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	28,679.8	-0.5%	10 yr bond	99.17	0.02			90 day BBSW	0.08	0.00
Japan Nikkei	23,601.8	0.2%	3 yr bond	99.82	0.00			2 year bond	0.15	0.00
China Shanghai	3,521.2	0.0%	3 mth bill rate	99.93	0.00			3 year bond	0.14	0.00
German DAX	13,019.0	-0.9%	SPI 200	6,148.0	-55			3 year swap	0.13	0.00
UK FTSE100	5,969.7	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.85	0.00
<b>Commodities (close &amp; change)*</b>			TWI	61.2	-	-	60.9	<b>United States</b>		
CRB Index	150.4	0.6	AUD/USD	0.7210	0.7218	0.7150	0.7160	3-month T Bill	0.09	-0.01
Gold	1,891.7	-31.1	AUD/JPY	75.96	75.98	75.44	75.52	2 year bond	0.14	-0.01
Copper	6,685.3	-83.3	AUD/GBP	0.5516	0.5536	0.5495	0.5535	10 year bond	0.73	-0.05
Oil (WTI)	40.2	0.8	AUD/NZD	1.0839	1.0856	1.0765	1.0768	<b>Other (10 year yields)</b>		
Coal (thermal)	53.7	-1.0	AUD/EUR	0.6104	0.6108	0.6075	0.6097	Germany	-0.56	-0.01
Coal (coking)	121.4	-6.5	AUD/CNH	4.8630	4.8668	4.8210	4.8263	Japan	0.03	0.00
Iron Ore	116.9	-2.6	USD Index	93.0	93.6	93.0	93.5	UK	0.24	-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:** Investors became more risk averse overnight amid an ongoing stalemate in US fiscal package negotiations, setbacks in the trials for a COVID-19 vaccine and weak economic data in Europe.

**Share Markets:** US share markets retreated from six-week highs on pessimism over a stimulus deal and mixed corporate news. Banks led the S&P 500 index lower. At the close the S&P 500 index was down 22 points (or -0.6%). Meanwhile, the Dow Jones was off 158 points (or -0.6%).

**Interest Rates:** US government bond yields fell across the yield curve with the curve flattening. The US 10-year yield dropped 5 basis points to 0.73% whilst the 2-year yield edged down just 1 basis point.

**Foreign Exchange:** The US dollar rose across the board, with the Australian dollar among the weakest of the G-10 currencies. The AUD/USD failed to break above resistance at 0.7250 on Monday and has been under pressure since, dropping back down towards the 0.7150 handle overnight. The sell off in the Australian dollar was also spurred by news reports that China has possibly suspended purchases of Australian coal.

**COVID-19:** Yesterday, there were 13 new cases in NSW, of which 7 were locally transmitted. Victoria recorded 12 new cases.

From Friday, NSW venues will be allowed to double the number of patrons sitting outside as the government relaxes some restrictions.

Tasmania will open its border to all Australian states and territories, except NSW and Victoria, on October 26.

In the US, a new 10-minute Covid-19 test from Access Bio has been cleared by the Food and Drug Administration (FDA).

A study published at the Lancet showed reinfection can occur and the second bout can be more severe.

In other news, Eli Lilly's antibody trial has been paused due to potential concerns. Johnson & Johnson also temporarily halted its Covid-19 vaccine clinical trial, saying a participant experienced an unexplained illness.

**Commodities:** The Australian government is seeking clarification from the Chinese government on reports that China has suspended purchases of Australian coal amid heightened tensions between the two countries. According to unconfirmed reports, Chinese power stations and steel mills have been verbally told to immediately stop using Australian coal. Ports apparently have also been told not to offload Australian coal. It is not clear when the latest import ban might end or how it might affect long-term contracts that are already in place. China is the top consumer of Australia's

metallurgical coal and the number two consumer for Australia's thermal coal exports (behind Japan).

OPEC and its key partners are still planning to ease output cuts by 2 million barrels a day in January, according to the UAE's Energy Minister. This Minister added sees encouraging signs that oil demand is rebounding from the effects of the coronavirus. Meanwhile, OPEC trimmed estimates for the crude it will need to pump over the next year by 230,000 barrels a day to 27.93 million.

**Australia:** The number of residents returning to Australia fell to 8k in August, a 21.5% decline on the previous month. Returning residents are a source of underlying demand for housing, however, their numbers seem unlikely to match the net immigration number of 200k plus in each of the past four years.

According to an ABS survey, in the last four weeks 31% of people with a job worked from home most days compared with 12% before March. The survey also found that one in six people with a job (18%) did not have enough paid sick leave to take two weeks off.

**China:** China's trade balance for September came in below median expectations with a surplus of \$US37 billion. Imports lifted 11.6% in local currency terms while exports were up 8.7%. The fourth straight month of growth in exports points towards a recovery in global trade while the growth in imports reflects a rebound in China's domestic economy.

**Europe:** Investor confidence in the outlook for Germany's economy plunged, in a sign of concern that resurgent infections could hurt the economic recovery. A gauge by the ZEW dropped to 56.1 in October in Germany, the lowest in five months, from 77.4 in September. The ZEW measure for the euro area also dropped sharply. It dropped from 73.9 in September to 52.3 in October.

**United Kingdom:** The unemployment rate lifted 0.4 percentage points to 4.5% in the three months to August. It is the highest rate in three years. The latest data also revealed that the number of redundancies rose to 227k, which is the highest since 2009. The Office for Budget Responsibility anticipates the unemployment rate will rise and peak between 9.7% and 13.2% this year.

**United States:** A key measure of US consumer prices rose in September at the slowest pace in four months, signalling little threat of accelerating inflation as the economy recovers. The consumer price index (CPI) rose 0.2% from the prior month after a 0.4% gain in August. Compared with a year

earlier, the gauge increased 1.4%, after August's 1.3% rise. The core CPI, which excludes volatile food and fuel costs and is viewed by Federal Reserve policy makers as a more reliable gauge of price trends, also increased 0.2% from the prior month and lifted 1.7% from a year ago. The moderation in consumer inflation occurred despite another hefty increase in used-motor vehicle prices and reflects subdued demand in some parts of the economy as the coronavirus continues to disrupt business.

The NFIB small business optimism index rose to 104.0 in September, from 100.2 in August. The gain was more than expected by the median consensus among economists. Employment and capex plans rose, as did small businesses outlooks for sales and the economy, although pandemic concerns remain.

Stimulus talks stalled again. House Speaker Nancy Pelosi demanded the White House revamp its latest offer, saying it "falls significantly short" of what's needed and it's unclear when or whether she and Treasury Secretary Steve Mnuchin plan to talk. The Senate's Majority Leader Mitch McConnell pushed a smaller-scale strategy that Democrats have repeatedly rejected and President Trump seemed to repudiate. McConnell proposed to vote next week on just one provision to replenish funds in the Paycheck Protection Program for small businesses. Trump promptly tweeted "Go big or go home!!!"

**World:** The International Monetary Fund (IMF) was a little less pessimistic on the world growth outlook for 2020. The agency forecast global GDP will shrink 4.4% this year compared with the June forecast of a 5.2% drop. The contraction would still be the deepest since the Great Depression. However, the IMF tempered its outlook for 2021 growth to 5.2%, from 5.4% previously, and warned the road to recovery will be bumpy.

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

AU WBC-MI Consumer Sentiment Oct prev 93.8 (10:30am)

EZ Industrial Production Aug exp 0.8%, prev 4.1% (8pm)

US PPI Final Sep y/y exp 0.2%,prev 0.3% (11:30pm)

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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