Morning report

Thursday, 17 September 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,956.1	1.0%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	28,032.4	0.1%	10 yr bond	99.08		-0.01		90 day BBSW	0.09	0.00
Japan Nikkei	23,475.5	0.1%	3 yr bond	99.73		0.00		2 year bond	0.19	-0.01
China Shanghai	3,441.8	-0.4%	3 mth bill rate	99.91		0.00		3 year bond	0.23	-0.01
German DAX	13,255.4	0.3%	SPI 200	5,950.0		-13		3 year swap	0.14	-0.01
UK FTSE100	6,078.5	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	0.00
Commodities (close & change)*			TWI	62.3	-	-	62.1	**United States**		
CRB Index	149.7	2.0	AUD/USD	0.7304	0.7345	0.7279	0.7303	3-month T Bill	0.09	-0.01
Gold	1,959.3	5.1	AUD/JPY	77.01	77.19	76.45	76.64	2 year bond	0.14	0.00
Copper	6,788.4	18.6	AUD/GBP	0.5666	0.5685	0.5623	0.5633	10 year bond	0.70	0.02
Oil (WTI)	40.2	1.9	AUD/NZD	1.0876	1.0883	1.0833	1.0852	**Other (10 year yields)**		
Coal (thermal)	57.7	2.2	AUD/EUR	0.6164	0.6202	0.6160	0.6181	Germany	-0.48	-0.01
Coal (coking)	117.5	2.4	AUD/CNH	4.9516	4.9626	4.9172	4.9263	Japan	0.02	0.00
Iron Ore	119.6	-4.3	USD Index	93.1	93.3	92.8	93.1	UK	0.21	-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: The US Federal Reserve concluded its 2-day meeting and indicated that rates would stay for at least 3 years. US economic data was relatively upbeat and the OECD expect the downturn this year to be smaller than feared in June.

Share Markets: The Fed's dovish signals gave US share market bourses only a temporary boost. A slide in tech shares erased the S&P's gains with Adobe, Apple and Facebook recording large declines overnight.

Interest Rates: US Treasuries (i.e. prices) fell to session lows after Federal Reserve Chair Powell said the central bank is satisfied with the size and shape of its asset purchase program. The US 10-year yield finished 2 basis points higher while the 2-year yield ended flat.

Foreign Exchange: The US dollar index strengthened overnight, as economic data and the US Federal Reserve statement buoyed demand for the greenback. The AUD/USD fell from an overnight high of 0.7345 to an overnight low of 0.7279.

Commodities: Oil surged above US$40 a barrel in New York. Shrinking US crude inventories and a lift in domestic refining helped mitigate concerns about oversupply. The United Arab Emirates (UAE) also underpinned demand for oil by signalling it will make up for two months of pumping too much oil.

COVID-19: Yesterday Victoria reported 42 new cases and 8 new deaths. Also, Victoria's 14-day case average dropped below 50. NSW recorded 10 new cases, of which 6 were returned travellers in hotel quarantine.

Category two and three elective surgery cases will now be allowed to go ahead in Victoria.

Queensland reported no new cases in the past 24 hours and the Queensland government announced that it will lift its ban on the eviction of residential tenants who have lost jobs or income due to the pandemic.

Eli Lilly reported a reduced hospitalisation rate for patients given its antibody treatment. Symptoms that prompted AstraZeneca to pause trials of its vaccine candidate probably were not tied to the shot itself.

Australia: The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, rose from -4.42% in July to -2.56% in August. While the leading index growth rate has continued to improve from the extreme low set in April, it remains below the pace immediately prior to Australia's nationwide lockdown.

Europe: The trade surplus expanded to €23.3 billion in July, from €16.0 billion in June.

Bank of Spain Governor and European Central Bank (ECB) policymaker de Cos added to the recent comments from other ECB members, notably Chief Economist Lane, that foreign exchange markets would be monitored closely. He added that the strength of the euro was dampening inflation.

New Zealand: New Zealand's COVID-19 lockdown saw imports fall more than exports, leading to a record current account surplus of NZ$0.5 billion, its largest current account surplus since the series began in 1971. It was the first quarterly surplus since 2009.

United Kingdom: The consumer price index (CPI) fell 0.4% in August and rose just 0.2% in the year to August. It is the lowest annual inflation rate since late 2015. Consumer price inflation was dampened by the government's Eat Out to Help Out discount meal scheme, which drove down the cost of living.

United States: The Federal Reserve left interest rates unchanged and near zero. It also indicated it would hold rates at these low levels for the next three years at least to help the US economy recover from the coronavirus pandemic. The dot plot rate projection showed FOMC members expected the 0.125% target midpoint to remain unchanged through to 2023 (apart from one expecting a hike in 2022 and four expecting such in 2023).

Federal Reserve Chair Jerome Powell in his press conference said that while the recovery has been faster than expected, activity remains well below pre-pandemic levels. The central bank raised its forecast for 2020 GDP to -3.7% from -6.5% and trimmed the outlook for the unemployment rate in Q4 to 7.6% from 9.3%. The outlook for 2021-23 was more restrained.

Retail sales rose by 0.6% in August, which is the thirds consecutive monthly increase. It follows a downwardly revised 0.9% increase in July and 8.6% rise in June. Momentum appears to be waning in retailing. Retailing growth could also be harder to come by in the months ahead with the expiration of federal aid for the unemployment and businesses struggling to survive.

The housing market index rose to 83 in September, from 78 in August, according to the NAHB report. The index is a widely watched sentiment gauge of the outlook for the US housing sector. September's result is the highest since the data series goes back (to 1985).

World: The global economic slump will not be as sharp as previously feared, the OECD said overnight, but the recovery is losing pace. The OECD expected the world economy will shrink 4.5% this year, less than the 6% contraction previously forecast in June. There were big revisions for the US and the euro area, as well as China, which is now forecast to grow more modestly. The US is expected to contract 3.8% versus -7.3% in the earlier forecast.

Today's key data and events:

AU Labour Force Aug (11.30am)
– Employment Change exp -50k prev 114.7k
– Unemployment Rate exp 7.7% prev 7.5%
– Participation Rate exp 64.5% prev 64.7%
NZ GDP Q2 exp -12.8% prev -1.6% (8.45am)
UK BoE Decision exp 0.1% prev 0.10% (9.00pm)
US Housing Starts Aug exp -0.9% prev 22.6% (10.30pm)
US Building Permits Aug exp 2.3% prev 18.8% (10.30pm)
US Philadelphia Fed Index Sep exp 15.0 prev 17.2 (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.

Besa Deda, Chief Economist
Ph: 02-8254-3251

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Hans Kunnen
hans.kunnen@banksa.com.au
(02) 8254 1316