

Tuesday, 1 September 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,060.5	-0.2%	Last		Overnight Chg			Australia		
US Dow Jones	28,430.1	-0.8%	10 yr bond	99.00	0.00			90 day BBSW	0.09	0.00
Japan Nikkei	23,139.8	1.1%	3 yr bond	99.69	0.00			2 year bond	0.25	0.00
China Shanghai	3,559.0	-0.2%	3 mth bill rate	99.91	0.00			3 year bond	0.26	0.00
German DAX	12,945.4	-0.7%	SPI 200	5,968.0	-62			3 year swap	0.20	0.01
UK FTSE100	5,963.6	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.98	-0.04
Commodities (close & change)*			TWI		62.3	-	-	62.6	United States	
CRB Index	153.2	-0.2	AUD/USD	0.7363	0.7403	0.7340	0.7373	3-month T Bill	0.10	0.00
Gold	1,969.0	4.2	AUD/JPY	77.63	78.46	77.41	78.08	2 year bond	0.13	0.00
Copper	6,681.5	49.0	AUD/GBP	0.5516	0.5534	0.5505	0.5517	10 year bond	0.70	-0.02
Oil (WTI)	42.8	-0.2	AUD/NZD	1.0935	1.0954	1.0910	1.0950	Other (10 year yields)		
Coal (thermal)	52.8	0.9	AUD/EUR	0.6183	0.6192	0.6164	0.6180	Germany	-0.40	0.01
Coal (coking)	113.0	0.0	AUD/CNH	5.0514	5.0692	5.0312	5.0501	Japan	0.05	-0.01
Iron Ore	122.0	1.8	USD Index	92.3	92.5	92.0	92.2	UK	0.31	0.00

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 6:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Concerns the sale of TikTok's US operations would not go ahead escalated overnight, causing a wobble in US share markets. The AUD/USD stretched to a 2-year high of 0.7403, hitting our short-term target (outlined in June). The day ahead sees an avalanche of economic data in Australia ahead of the GDP outcome for Q2 tomorrow.

Share Markets: The Dow Jones Industrial Average led losses after its components were revamped. Microsoft and Walmart were among the worst performers on concern China could block a possible sale of the TikTok video app. The Dow Jones fell 234 points (or -0.8%). The S&P 500 index slid 8 points (or -0.2%), but finished the month 7.0% higher, making it five consecutive monthly advances – the best streak in nearly 2 years.

A plan to sell the US operations of TikTok was thrown into jeopardy last night after China's commerce ministry added speech and text recognition and personalised commendations to a list of products that require approval before they are sold overseas.

Apple Inc.'s stock split 4-for-1 lifted the Nasdaq 100 index past 12,000 for the first time.

Interest Rates: The US 2-year treasury yield ranged sideways between 0.13% and 0.14%, closing unchanged on the day at 0.13%. Meanwhile, the US

10-year treasury yield fell rose from yesterday's close of 0.72% to an intraday high of 0.75%, but closed 2 basis points lower at 0.70%.

The Australian 3-year government bond yield (futures) traded around 0.32% and the Australian 10-year yield ranged sideways between 0.99% and 1.03%.

Foreign Exchange: The AUD/USD reached our short-term target of 0.7400 overnight, reaching an overnight high of 0.7403, which is the highest level since 9 August 2018. On June 10, in this morning report, when the AUD/USD was trading at 0.7015, we published that we expected the AUD/USD to correct modestly and consolidate before resuming its stretch upwards to 0.7400 in the next few months. The AUD/USD indeed corrected to 0.6777 on June 15, consolidated for a month in a range of 0.6777-0.7005 before resuming its march higher and hitting our target.

Technically speaking, the next key test for the AUD/USD is 0.7450, which represents the 38.2% retracement level of the downtrend from 1.0582 in 11 April 2013 to the 19 March 2020 low of 0.5510. If AUD/USD breaks above 0.7450-0.7480 very quickly, it would likely eye 0.7800 in the short term and ultimately the 0.8000-0.8050 handle beyond that. The pandemic's impact on major economies around the world continues to leave currency markets

subject to considerable volatility, however.

Commodities: Copper prices pushed higher to hit a level not seen in over two years. Most other commodities were also firmer in overnight trade, although oil slid.

COVID-19: Yesterday Victoria recorded 73 new COVID-19 cases, which is the lowest daily tally for almost two months. There were 41 deaths. An announcement is expected this Sunday by Victoria's Premier, giving further details of the plan for post lockdown. Some details of the plan for businesses were released last night. Under the Victorian government's new industrial plans, Victorians will be encouraged to work from home where possible, car pooling will be banned and face coverings will be required in high-risk workplaces. Industry will also be subject to four traffic-light levels of restrictions: closed, heavily restricted, restricted or open with a COVIDSafe plan.

NSW recorded 10 new cases yesterday and QLD one new infection.

Australia: Private sector credit data for July showed that the demand for borrowing in the economy remained weak. Credit to the private sector fell 0.1% in July, falling for a third consecutive month. The last time credit fell for three consecutive months was early 1992 as the economy struggled out of its last recession.

Business credit fell for a third consecutive month, declining 0.6% in July. The demand for business credit surged in March as businesses sought to strengthen their cash positions. Since then, however, demand has tailed off.

There is a divergence between activity in the owner occupier sector of the housing market and credit for investor housing. Credit for owner occupied housing rose 0.4% in the month while that for investor housing fell 0.1%. Credit for owner occupied housing is up 5.4% over the year but for investor housing it is down 0.7%.

Meanwhile, company profits were boosted substantially by government payments during the June quarter. Company profits rose 15.0% in the June quarter following a 1.4% increase in the March quarter.

Wages & salaries declined by 3.3% in the June quarter, which is the biggest decline since the data series goes back and reflects the sharp deterioration in the labour market. The annual pace also showed a contraction, of 1.1%, which was the largest decline since the December quarter of 2009.

Inventories declined sharply in the June quarter, falling by 3.0% or \$4.8 billion. It was the biggest decline since the data series began in 1985. COVID-19-related restrictions have had a detrimental impact on production, resulting in a drawdown in inventories across all sectors except for mining. Inventories will subtract 0.5 percentage points from growth in the June quarter.

There are two more partial economic indicators released today that will help finalise tomorrow's GDP forecast. Partial economic indicators released so far suggest the GDP outcome tomorrow could be close to a 6% decline for the quarter, after a fall of 0.3% in the March quarter.

The Melbourne Institute inflation gauge rose 0.1% in August following a 0.9% surge in July. On an annual basis, the prices measure rose 1.3% in August, unchanged from the previous month.

Sino-Australian relations may have taken another downward turn. Australia's Foreign Minister said the Chinese government has detained Cheng Lei, an Australian who works as an anchor for Chinese government-run CGTN. Cheng has not been charged with any crime. China earlier announced a subsidy probe into Australian wine, after Canberra last week unveiled a bill that would let it cancel deals with China. Earlier, Australia barred Huawei and rejected China's maritime claims.

China: Manufacturing activity remained in expansion in August, but the level of activity declined slightly from July. The official manufacturing purchasing managers' index (PMI) fell to 51.0 in August from 51.1 in July. The outcome was also below consensus expectations (51.2).

Conditions in the services sector improved slightly. The non-manufacturing PMI rose to 55.2 in August from 54.2 in July.

Europe: Germany's inflation rate fell 0.1% in August with the annual inflation pace slowing to 0.0%.

India: India's economy posted the biggest drop among major countries last quarter. GDP in Q2 fell by a record 23.9% year-on-year. Consensus had been for a smaller decline of -18.0%. India is now on track for its first full-year contraction in four decades as the number of new daily infections remain very high. India is currently registering the highest number of new daily infections and has the highest number of total cases, after the US and Brazil.

United States: Manufacturing activity in Texas expanded in August. The general business activity index of the Federal Reserve Bank of Dallas'

manufacturing survey rose to +8 in August, from -3 in July. The survey also revealed expectations about future business activity remained positive, but were less positive than last month.

The Federal Reserve Vice Chairman, Richard Clarida, suggested overnight the Fed may employ Treasury yield caps at some point, calling them "an option that the committee could reassess." Clarida also once again rejected negative rates.

Atlanta's Federal Reserve President and CEO Raphael Bostic said it is "a bit premature" for the US central bank to go into more detail about how to achieve its goals under the new policy framework. He also noted "some retrenchment of activity," adding "this recovery is going to take a lot longer than I think people expected."

Today's key data and events:

AU AiG Perf of Mfg Index Aug prev 53.5 (8:30am)
NZ Building Permits Jul prev 0.5% (8:45am)
AU CBA Mfg PMI Aug F prev 53.9 (9am)
AU CoreLogic House Prices Aug exp -0.6% prev -0.1% (10am)
AU Bldg Approvals Sep exp 3.0% prev -4.9% (11:30am)
AU Curr. Acct Q2 exp A\$13.0bn prev A\$8.4bn (11:30am)
CH Caixin Mfg PMI Aug exp 52.5 prev 52.8 (11:45am)
AU RBA Board Meeting exp 0.25% prev 0.25% (2:30pm)
EZ Markit Mfg PMI Aug F exp 51.7 prev 51.7 (6pm)
UK Consumer Credit Jul exp £0.8b prev -£0.1b (6:30pm)
UK Markit Mfg PMI Aug F exp 55.3 prev 55.3 (6:30pm)
EZ Unemployment Rate Jul exp 8 prev 7.8% (7pm)
EZ CPI Aug Preliminary exp 0.0% prev -0.4% (7pm)
US Markit Mfg PMI Aug F exp 53.6 prev 53.6 (11:45pm)
US ISM Manufacturing Aug exp 54.5 prev 54.2 (12am)
US Constr'n Spending Jul exp 1.1% prev -0.7% (12am)
US Fed's Brainard Speech (3am)

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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