

Thursday, 23 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	6,075.1	-1.3%	Last		Overnight Chg			Australia			
US Dow Jones	27,005.8	0.6%	10 yr bond	99.11	0.01			90 day BBSW	0.11	0.00	
Japan Nikkei	22,751.6	-0.6%	3 yr bond	99.69	0.00			2 year bond	0.27	0.01	
China Shanghai	3,493.7	0.4%	3 mth bill rate	99.89	0.00			3 year bond	0.28	0.00	
German DAX	13,104.3	-0.5%	SPI 200	6,048.0		7			3 year swap	0.21	0.00
UK FTSE100	6,207.1	-1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	0.02	
Commodities (close & change)*			TWI	61.1	-	-	61.8	United States			
CRB Index	143.3	0.8	AUD/USD	0.7133	0.7182	0.7112	0.7139	3-month T Bill	0.11	0.00	
Gold	1,871.4	29.5	AUD/JPY	76.17	76.87	76.05	76.50	2 year bond	0.15	0.01	
Copper	6,496.0	-44.7	AUD/GBP	0.5605	0.5651	0.5596	0.5607	10 year bond	0.60	0.00	
Oil (WTI)	41.9	0.0	AUD/NZD	1.0740	1.0747	1.0709	1.0722	Other (10 year yields)			
Coal (thermal)	53.5	-0.5	AUD/EUR	0.6185	0.6210	0.6160	0.6169	Germany	-0.49	-0.03	
Coal (coking)	112.0	1.5	AUD/CNH	4.9720	5.0224	4.9674	5.0081	Japan	0.02	-0.01	
Iron Ore	107.3	-0.8	USD Index	95.2	95.4	94.8	95.0	UK	0.12	-0.02	

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: It was a mixed session across markets. US Congress is debating a stimulus package and tensions between US and China escalated.

Today, the Government is set to provide a Budget update.

Share Markets: US shares had a volatile session, as investors mulled over a debate on a \$1 trillion US stimulus package and an escalation of US and Chinese tensions. Nonetheless, major indices closed higher – the Dow and S&P500 both gained 0.6%. The Nasdaq lifted 0.2%, weighed down by a fall in Amazon shares.

Interest Rates: Yields on US treasuries slipped, mostly at the longer end of the curve. US 10-year yields fell 2 basis points to 0.12%. Nonetheless, treasury yields remain rangebound with the Federal Reserve likely to keep interest rates at low levels and without more clarity on the fiscal stimulus package.

Foreign Exchange: The US dollar index edged lower and is near a four-month low. Euro took another leg up gaining further reflecting optimism on the joint stimulus package agreed upon by EU leaders. The sign of co-operation among the bloc is a major positive for the currency. The Australian dollar touched a new high of 71.82 US cents before easing slightly.

Commodities: Oil prices fell, on a surprising lift in

US crude inventories. Gold prices climbed to a nine-year high, supported by the extensive stimulus measures around the world.

COVID-19: Global new cases lifted 202,726 slowing for the fourth consecutive day after peaking on the weekend.

Yesterday, new cases in Australia hit 502. Cases in Victoria rose 484, the highest on record. New cases in NSW stood at 16.

Australia: The Federal Government is due to release a fiscal and economic update today, which is expected to unveil support measures amid the impact from COVID-19. An extension to the JobKeeper wage subsidy has already been announced, although it will be reduced and more targeted. Other income support measures will be looked out for, possibly including a bringing forward of tax cuts. A news report late yesterday has suggested that the budget deficit will lift to under \$90 billion for 2019-20 and rise to almost \$190 billion for 2020-21. Gross debt is expected to rise to \$850 billion. However, the priority should be for the government to provide the support to the economy in a time of need.

Retail spending rose 2.4% in June, according preliminary data released by the Australian Bureau of Statistics (ABS).

It was a much smaller increase than the 16.9% increase recorded in May. However, outside of the

pandemic, you would need to go back to March 2009 to find a larger monthly increase.

On an annual basis, the level of retail turnover was 8.2% higher in June, up from 5.8% in May.

The result in June captures the reopening of some parts of the economy and the lifting of some restrictions. Indeed, June's gain was driven by growth in spending on cafes, restaurants & takeaway food services, which exceeded 20% for the second consecutive month in June.

Clothing, footwear & personal accessory turnover was also solid. This segment rose around 19% in June, while department store spending pulled back sharply after a large rise in May.

Food spending remained elevated as households continue to social distance and eat more meals at home. There was some evidence of a return of stockpiling behaviour in late June in Victoria.

A return to lockdown in Victoria and the threat of renewed restrictions in NSW is likely to cause a further divergence in spending patterns across States.

Deteriorating labour market conditions and heightened uncertainty present downside risks to consumer spending. Spending on goods may be supported as consumers divert spending away from services (such as international travel).

The Westpac-Melbourne Institute Leading Index improved to -4.44% in June from -5.29% in May. Easing movement restrictions facilitated the modest lift in the index, notably an increase in US industrial production and the lift in hours worked in Australia. Despite the increase, the index continues to signal recessionary economic conditions.

Japan: The decline in manufacturing activity eased for the second consecutive month while the recovery in the services sector stalled. The Jibun Bank Manufacturing PMI rose by 2.5 points to 42.6 in June. The services PMI edged up slightly by 0.2 points to 45.2, following two months of large gains. Both indices remain below 50, signalling shrinking activity.

Japan's state of emergency was lifted in late May, prompting a sweeping increase in activity measures. A rise in infections in Tokyo recently has led to new travel restrictions and sparked concern about a second wave.

United States: In a sign of deteriorating relations with China, an order was given to China to close its consulate in Houston "to protect American intellectual property and Americans' private

information". The Chinese foreign ministry has called it an "unprecedented escalation" and said that "China will surely react with firm countermeasures".

Republicans and Democrats are debating a \$1 trillion stimulus package. Disagreement remains over Trump's proposed payroll tax cut and insufficient spending on coronavirus testing. Hopes are for the stimulus to be implemented before unemployment insurance expires on July 31.

FHFA house prices fell 0.3% in May, the largest fall since 2012 and a sign that the large hit to the labour market is negative impacting on housing demand. However, existing home sales surged 20.7% in June, after falling for three consecutive months on the re-opening of economies. Sales were still down just over 18% from their level in February.

Today's key data and events:

AU Government Economic & Fiscal Update (11am)
 AU NAB Business Confidence Q2 prev -11 (11:30am)
 UK CBI Trends Total Orders Jul exp -38 prev -58 (8pm)
 US Initial Jobless Claims w/e 1 Jul exp 1293k prev 1300k (10:30pm)
 US Continuing Claims w/e 1 Jul exp 16900k prev 17338k (10:30pm)
 US Bloomberg Eco Expectations Jul prev 38.0 (11:45pm)
 US Leading Index Jun exp 2.1% prev 2.8% (12am)
 EZ Consumer Confidence Jul exp -12.0 prev -14.7 (12am)
 US Kansas City Fed Manf. Activity Jul exp 5 prev 1 (1am)

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.

Janu Chan, Senior Economist

Ph: 02-8253-0898

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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