

Wednesday, 26 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,161.4	0.5%	Last		Overnight Chg			Australia		
US Dow Jones	28,248.4	-0.2%	10 yr bond	99.07		-0.03	90 day BBSW	0.10	-0.01	
Japan Nikkei	23,296.8	1.4%	3 yr bond	99.69		-0.01	2 year bond	0.25	-0.01	
China Shanghai	3,535.7	-0.4%	3 mth bill rate	99.90		0.00	3 year bond	0.26	0.00	
German DAX	13,061.6	0.0%	SPI 200	6,094.0		-34	3 year swap	0.20	0.00	
UK FTSE100	6,037.0	-1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	0.03
Commodities (close & change)*			TWI	61.6	-	-	61.5	United States		
CRB Index	152.6	1.4	AUD/USD	0.7163	0.7198	0.7151	0.7194	3-month T Bill	0.09	0.00
Gold	1,928.2	-0.7	AUD/JPY	75.92	76.56	75.86	76.55	2 year bond	0.15	0.00
Copper	6,535.3	13.5	AUD/GBP	0.5483	0.5489	0.5458	0.5472	10 year bond	0.68	0.03
Oil (WTI)	43.4	0.7	AUD/NZD	1.0971	1.1001	1.0960	1.0988	Other (10 year yields)		
Coal (thermal)	49.5	0.0	AUD/EUR	0.6076	0.6084	0.6053	0.6079	Germany	-0.43	0.06
Coal (coking)	112.2	0.2	AUD/CNH	4.9525	4.9695	4.9411	4.9678	Japan	0.04	0.01
Iron Ore	117.6	-2.6	USD Index	93.3	93.3	93.0	93.0	UK	0.26	0.05

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: Sentiment was positive overnight, helped by a combination of positive US housing data, encouraging news on trade relations in the US and China and further developments in treatments of COVID-19.

Share Markets: Stronger risk appetite saw the S&P500 and the Nasdaq rise further to new record highs, lifting 0.4% and 0.8%, respectively. The Dow, which has lagged behind the other two indices, fell 0.2%.

Comments on the US-China trade deal were positive. In addition, British drugmaker, AstraZeneca began trials of an anti-body drug for the treatment and prevention of COVID-19.

Interest Rates: Buoyant sentiment and optimism over US economic data translated into a sell-off in US treasuries. Yields rose, particularly at the longer end of the curve. US 10-year yields lifted 4 basis points to 0.68%.

Yesterday, Australian 10-year bond yields lifted 3 basis points to 0.89%.

Foreign Exchange: The US dollar index fell, reflecting stronger risk appetite. The euro was also supported by a lift in German business confidence. There is some key event risk ahead when Federal Reserve Chair Powell is due to speak at the Fed's annual conference on Thursday.

The Australian dollar lifted from a low of 71.51 US

cents to 71.92 US cents this morning, helped by the broadly weaker US dollar and lift in risk appetite.

Commodities: Oil prices jumped on supply concerns, as the threat of Hurricane Laura led to US producers shutting 84% of offshore production in the Gulf of Mexico. Gold prices fell on rising risk appetite.

COVID-19: The World Health Organisation reported 206,382 new cases yesterday, the lowest cases in a day so far in August.

As a trend, new cases have also fallen in Australia. The Department of Health reported 151 new cases yesterday. Of those cases, 148 were located in Victoria and 3 cases were in NSW.

Global: Top US and Chinese trade officials reaffirmed their commitment to the Phase 1 trade deal over a phone call which was agreed upon earlier this year. A statement from the US Trade Representative's office said that "both sides see progress and are committed to taking the steps necessary to ensure success of the agreement". The Chinese commerce ministry also confirmed that there was a "constructive dialogue".

Australia: Payroll jobs fell by 1.0% over the month to 8 August as the positive post-lockdown momentum in the labour market halted. Victoria's renewed lockdown had a noticeable impact, but other States were sluggish. Employment fell 2.8% in

Victoria over the month to 8 August.

Sectors in Victoria exposed to restrictions saw the greatest job losses. Accommodation & food services employment in the State fell 10.8% over the 4 weeks to 8 August while arts & recreation was down 8.8%.

There was also some labour market weakness in NSW. Payrolls fell 0.7% over the month to 8 August with broad-based sluggishness across sectors.

South Australia (0.7%) and Tasmania (0.6%) were the only States to record an increase in payroll jobs over the 4 weeks to 8 August. The ACT recorded a 2.2% decline over the period. Employment falls were muted elsewhere, including a 0.2% decline in Queensland, a 0.3% fall in Western Australia and a 0.8% decline in the Northern Territory.

Separately, preliminary trade data for July was released. It showed that the total value of imported goods rose 11% in July. There was a bounce back in imports of road vehicles (49%) and petroleum (15%) which led the rise.

Meanwhile, the value of goods exported fell 6% in July as resource commodities (including iron ore, copper and coal) fell back after sharp increases earlier in the year. Despite the fall in July, goods exports continued to outweigh imports, with Australia recording another trade surplus during the month.

Europe: Business confidence in Germany continued to improve in August. The IFO Business Climate index rose from 90.4 to 92.6, the fourth consecutive month of improvement after hitting a low in April. The index is just shy of its level hit in February and provides hope of further economic recovery for the euro zone. Both the assessment of current conditions and expectations sub indices improved in the month.

Other data from Germany showed that the GDP contraction for the second quarter was revised from -10.1% to 9.7%.

United States: Activity in the housing market is continuing to show signs of a recovery. New home sales jumped 13.9% in July, the third consecutive double-digit increase. The level of sales was the highest since 2008. Its strength might reflect some pent up demand while sales activity was dented throughout lockdown periods and concerns over a high number of COVID-19 cases.

However, house price data was mixed. The FHFA reported a 0.9% increase in June, while the S&P CoreLogic Case-Shiller index was flat. While an

easing of restrictions has been a major positive for boosting activity, the still high level of unemployment is likely weighing on prices.

Concerns regarding the economic recovery remain. The index on consumer confidence fell from 91.7 in August to 84.8 in July, the lowest in six years. Still elevated COVID-19 cases and the expiration of a \$600 per week unemployment benefit on July 31 are likely factors which are weighing on confidence.

Today's key data and events:

NZ Trade Balance Jul exp \$293m prev \$426m (8:45am)
 JN PPI Services YoY Jul y/y exp 0.8% prev 0.8% (9:50am)
 US Durable Goods Jul P exp 4.5% prev 7.6% (10:30pm)
 US Durables Ex Transport Jul P exp 1.9% prev 3.6% (10:30pm)
 US Capital Goods Orders Non-Defence Ex-Air Jul P exp 1.7% prev 3.4% (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.

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