

Friday, 28 August 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,126.2	0.2%	Last		Overnight Chg			Australia		
US Dow Jones	28,492.3	0.6%	10 yr bond	99.02	-0.05			90 day BBSW	0.09	0.00
Japan Nikkei	23,208.9	-0.4%	3 yr bond	99.69	0.00			2 year bond	0.25	0.00
China Shanghai	3,511.2	0.6%	3 mth bill rate	99.90	-0.01			3 year bond	0.26	-0.01
German DAX	13,096.4	-0.7%	SPI 200	6,076.0	-9			3 year swap	0.19	0.00
UK FTSE100	6,000.0	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	-0.03
Commodities (close & change)*			TWI	61.7	-	-	61.9	United States		
CRB Index	152.7	0.2	AUD/USD	0.7231	0.7290	0.7217	0.7261	3-month T Bill	0.09	0.00
Gold	1,929.5	-24.9	AUD/JPY	76.65	77.43	76.60	77.37	2 year bond	0.16	0.01
Copper	6,632.5	27.8	AUD/GBP	0.5475	0.5506	0.5475	0.5499	10 year bond	0.75	0.06
Oil (WTI)	43.0	-0.4	AUD/NZD	1.0930	1.0953	1.0899	1.0929	Other (10 year yields)		
Coal (thermal)	60.4	1.4	AUD/EUR	0.6112	0.6144	0.6111	0.6142	Germany	-0.41	0.01
Coal (coking)	113.0	0.8	AUD/CNH	0.4957	5.0114	4.9721	5.0005	Japan	0.04	0.00
Iron Ore	117.8	-2.3	USD Index	92.9	93.3	92.4	93.0	UK	0.34	0.03

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: US Federal Reserve Chair Powell presented a shift in the Fed's monetary policy framework, which suggested greater flexibility in its 2% inflation target, and suggested interest rates will remain very low for some time. US shares continued higher. Bond yields rose, and the US dollar index was slightly firmer.

Share Markets: Powell's message of lower for longer was generally supportive of equity markets. Share indices in Europe ended in the red, but in the US, the S&P500 gained 0.2%. The Dow was also higher, lifting 0.6%, although the Nasdaq was down 0.3%.

Interest Rates: Yields on US treasuries lifted, supported by the message that the Fed would tolerate periods of inflation above its target. The US 10-year yield rose 6 basis points to 0.75%.

Futures point to a 5-basis point increase in Australian 10-year bond yields to 0.98%.

Foreign Exchange: The US dollar index initially dipped but then rose after Powell's comments, and is slightly higher over the session. The Australian dollar lifted and is bumping up against the top of its range over the past month or so. AUD spiked to 72.9 US cents before settling at 72.6 US cents this morning.

Commodities: Oil prices slipped, on expectations that production would recover swiftly after

operations across the Gulf of Mexico were shut from Hurricane Laura. Gold prices fell following Powell's comments, moving inversely to the US dollar.

COVID-19: Globally, new cases hit 267,670 yesterday. New cases have stabilised in the US, however France, Italy and Spain have reported their highest daily cases in months.

The Department of Health reported 124 new cases yesterday, comprising of 113 cases in Victoria, 9 cases from NSW and 2 cases from Queensland.

Australia: Business spending weakened significantly in the June quarter when widespread lockdown measures were in place. Private capital expenditure (or capex) fell by 5.9% in the June quarter, the biggest quarterly decline in just over four years.

A sharp decline was anticipated reflecting the collapse in confidence and extreme uncertainty about the outlook under COVID-19. Businesses are also needing to adjust to major shifts in consumer behaviour and operations, including adhering to social-distancing guidelines, increased online activity, a shift away from international travel and working-from-home arrangements.

The fall in business spending was driven by services or "other" industries, which have been more significantly impacted by COVID-19. Capex for services declined 8.4%, the largest quarterly fall

since the June quarter of 1993. Spending plans for 2020-21 in this sector also imply a larger fall in spending than other sectors. Capex also fell in the mining and manufacturing sectors.

The final (7th) estimate for 2019-20 business investment printed at \$116.8 billion, revealing a 4.3% decline from business spending in 2018-19.

The third estimate for investment plans in 2020-21 implies a decline of 4.9% on the previous year. It reveals a sharp contraction for business spending is in store. Many firms still in survival mode and looking to cut non-essential spending, including investment expenditure.

The Australian Bureau of Statistics (ABS) also released the seventh edition of its survey measuring the impact of COVID-19 on businesses. The survey was conducted between 12 and 19 August. Questions this month were focussed on the financial position of firms and their capital expenditure intentions. The survey highlighted that firms remain uncertain about the future; 35% of all businesses said they expect difficulty meeting financial commitments over the next three months.

Small businesses continued to bear the brunt of the economic impact from COVID-19 with 35% of small businesses saying they expect it to be difficult or very difficult to meet obligations. This compares with 33% of medium-sized businesses (20-199 employees) and 18% of large businesses (200+ employees).

In August, the percentage of firms who reported a decrease in revenue over the month fell to 41% (compared with 47% in July) and 16% of firms reported an increase in revenue.

The proportion of firms reporting an increase in operating expenses remained high in August; 22% said that their expenses had increased.

Labour market conditions were less dire in August, according to the survey. An equal proportion (8%) of firms said that they had increased their headcount compared with those who reported a decrease.

Also, 23% of firms reported that they had decreased or cancelled their actual or planned expenditure in August compared with three months ago.

China: Industrial firms in China recorded a year-on-year increase of 19.6% in July, accelerating from an increase of 11.5% in June, the fastest pace since June 2018. In the first seven months of the year, however, profits fell by 8.1%, with May, June and July representing the only months of growth in

2020.

United States: US Federal Reserve Chair Powell presented a shift in the way the central bank would approach monetary policy. The key change was the goal of inflation. The Fed would now seek to achieve inflation to average 2% over time, which adds some flexibility to previous 2% inflation target. It would mean that periods of inflation below target, like currently, would likely be followed by an effort to bring inflation “moderately above 2% for some time”. With Powell suggesting a greater tolerance to inflation above the target, it would imply a that policy stimulus will be in place for a very long time and that interest rates are likely to remain near zero. The subtle shift in the policy goal now puts the focus on the labour market and providing it support, with less concern about inflation potentially overshooting the target.

Among the economic data releases, the GDP contraction in the June quarter was revised to be slightly less, up from an annualised pace of -32.9% to 31.7%. It continues to be a very sizeable contraction.

However, there was a less promising signal for the economy in the June quarter. The improvement in the labour market is beginning to hit a wall. Initial jobless claims held above 1 million for the second consecutive week, although they edged down 98k to 1,006k for the week ending August 22.

In other data, pending home sales rose 5.9% in July, and were 15.4% higher than a year ago. Housing market activity has picked up significantly from its pandemic lows.

The Kansas City Fed manufacturing index rose from 3 in July to 14 in August, the highest since late 2018. It adds to signs of a further recovery in manufacturing in the month from regional surveys.

Today's key data and events:

UK Lloyds Business Barometer Aug prev -22 (9:01am)
EZ Economic Confidence Aug exp 85.0 prev 82.3 (7pm)
EZ Industrial Confidence Aug exp -13.3 prev -16.2 (7pm)
EZ Services Confidence Aug exp -23 prev -26.1 (7pm)
EZ Consumer Confidence Aug F prev -14.7 (7pm)
US Personal Income Jul exp -0.4% prev -1.1% (10:30pm)
US Adv Goods Trade Jul exp -\$72.0bn prev -\$70.6bn
(10:30pm)
US W'sale Invent. Jul P exp -0.9% prev -1.4% (10:30pm)
US Personal Spending Jul exp 1.5% prev 5.6% (10:30pm)
US Retail Inv. MoM Jul exp -1.1% prev -2.6% (10:30pm)
US PCE Core Deflator Jul exp 0.5% prev 0.2% (10:30pm)
US MNI Chicago PMI Aug exp 52.6 prev 51.9 (11:45pm)
US UoM Con Sentiment Aug F exp 72.8 prev 72.8 (12am)

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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