

Thursday, 28 January 2021

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,781	-0.6%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	30,227	-2.3%	10 yr bond	98.91		0.00		90 day BBSW	0.01	0.00
Japan Nikkei	28,635	0.3%	3 yr bond	99.82		0.00		2 year bond	0.10	0.00
China Shanghai	3,746	0.1%	3 mth bill rate	99.99		0.00		3 year bond	0.11	0.00
German DAX	13,620	-1.8%	SPI 200	6,634.0		-71		3 year swap	0.15	0.00
UK FTSE100	6,567	-1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.09	-0.02
<b>Commodities (close &amp; change)*</b>			TWI	63.6	-	-	63.6	<b>United States</b>		
CRB Index	175.3	-0.1	AUD/USD	0.7751	0.7764	0.7644	0.7651	3-month T Bill	0.07	0.00
Gold	1,839.43	-16.5	AUD/JPY	80.30	80.44	79.63	79.72	2 year bond	0.12	0.00
Copper	7,826.75	-185.0	AUD/GBP	0.5641	0.5646	0.5595	0.5595	10 year bond	1.02	-0.02
Oil (WTI)	52.54	-0.1	AUD/NZD	1.0702	1.0716	1.0682	1.0697	<b>Other (10 year yields)</b>		
Coal (thermal)	87.55	1.6	AUD/EUR	0.6369	0.6380	0.6324	0.6325	Germany	-0.55	-0.01
Coal (coking)	154.00	4.3	AUD/CNH	5.0153	5.0248	4.9687	4.9720	Japan	0.05	0.01
Iron Ore	163.02	0.9	USD Index	90.2	90.9	90.1	90.7	UK	0.27	0.00

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:** A risk-off mood set in as the FOMC noted the loss of US growth momentum and Europe struggled under COVID-19 lockdowns. Disputes over vaccine availability also weighed on sentiment.

**Share Markets:** Fundamental reasons such as uncertainty regarding economic growth and COVID-19 fallout sat behind the weakness in equity markets overnight. There were also suggestions that selling by poorly positioned hedge funds magnified the losses.

The Dow fell 2.3%, the S&P500 was down 2.9% and the Nasdaq fell 2.6%.

European markets were also down. The FTSE100 fell 1.3%, the Dax was down 1.8% and the French CAC40 fell 1.3%.

The ASX200 fell 0.6% yesterday and, based on the futures market, appears set for a weak start to the day's trade.

**Interest Rates:** The US Federal Reserve left its benchmark interest rate unchanged near zero as it flagged a moderating US recovery and reiterated its pledge to use all available tools to support the economy during the coronavirus pandemic.

The central bank's policy-making body also repeated that it would maintain its bond-buying program at the current pace of US\$120 billion of purchases per month until "substantial further progress" toward its employment and inflation

goals has been made. It made no changes to the composition of its bond purchases.

In the risk-off environment, investors bought into US government bonds, pushing yields on US 10-year bonds down 2 basis points to 1.02%. Australian 10-year government bond yields also fell 2 basis points to 1.09%. Shorter-term yields were all steady.

**Foreign Exchange:** The US dollar index strengthened overnight moving up from 90.2 to 90.7. As a result, the AUD slipped back into the US 76 cent range. The AUD also weakened against the NZD and the Chinese yuan.

**Commodities:** Copper was down in the face of concerns over economic growth. This comes just a day after the IMF lifted its global growth forecasts. Coal and iron ore were marginally firmer but gold and oil edged lower.

**COVID-19:** Australia recorded its 10<sup>th</sup> consecutive day without locally transmitted cases. Disputes have arisen regarding the production and distribution of the AstraZeneca and Pfizer vaccines.

**Australia:** Headline CPI rose 0.9% in the December quarter. The result was impacted by a range of State and Federal government policies associated with child-care, excises, housing and electricity.

The annual headline rate of inflation picked up from 0.7% in the September quarter to 0.9% in the December quarter.

Underlying (trimmed mean) inflation in the December quarter rose by a modest 0.4% for an annual rate of just 1.2%. Underlying inflation is clearly well below the Reserve Bank's 2-3% per annum target band.

Difficult economic conditions in 2020 have contributed to weak inflation outcomes. While we expect the economy to pick up in 2021, we do not expect this to have a substantial impact on the CPI. We expect underlying inflation to stay below the 2-3% per annum target band at least until 2023.

The December NAB business survey provided further confirmation of a rapid rebound in activity as the rolling back of many COVID-19 restrictions saw the economy reopen. Business conditions jumped 5 points in November and then surged a further 7 points in December to be at +14. Business confidence declined by 9 points to a still robust +4, fully reversing the November spike. Confidence at +13 in November was a frothy reading, including an element of relief as Victoria's second lock-down finally came to an end.

**China:** The profits of industrial companies in China were up 20% in December 2020 on December 2019. For the full year, profits at state-owned firms fell 2.9% while profits at private companies rose 3.1%.

**United States:** Durable goods orders rose a modest 0.2% in December. This was below expectations and below the 1.2% increase reported in November. The result added to the market's risk-off sentiment.

**Today's key data and events:**

NZ Trade Balance Dec exp \$800mn prev \$252mn (8:45am)

AU Trade Price Indices Q4 (11:30am)

Export Prices exp 5.3% prev -5.1%

Import Prices -1.0% prev -3.5%

EZ Economic Confidence Jan exp 89.5 prev 90.4 (9:00pm)

UK Nationwide House Prices Jan exp 0.3% prev 0.8% (6pm)

US GDP Q4 exp 4.2% prev 33.4% (12:30am)

US Kansas City Fed Jan exp 12 prev 14 (3:00am)

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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