Morning report

Bank of Melbourne

Wednesday, 7 October 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,962.1	0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	27,772.8	-1.3%	10 yr bond	99.15		0.04		90 day BBSW	0.09	0.00
Japan Nikkei	23,433.7	0.5%	3 yr bond	99.83		0.03		2 year bond	0.18	0.00
China Shanghai	3,372.6	-0.2%	3 mth bill rate	99.95		0.02		3 year bond	0.16	-0.01
German DAX	12,906.0	0.6%	SPI 200	5,932.0		-17		3 year swap	0.11	-0.03
UK FTSE100	5,949.9	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	0.05
Commodities (close & change)*			TWI	60.8	-	-	0.0	**United States**		
CRB Index	149.5	2.1	AUD/USD	0.7179	0.7209	0.7100	0.7100	3-month T Bill	0.09	0.00
Gold	1,877.7	-35.8	AUD/JPY	75.91	76.17	75.01	75.01	2 year bond	0.14	0.00
Copper	6,521.8	-32.5	AUD/GBP	0.5532	0.5545	0.5503	0.5517	10 year bond	0.74	-0.04
Oil (WTI)	39.9	0.7	AUD/NZD	1.0804	1.0831	1.0760	1.0782	**Other (10 year yields)**		
Coal (thermal)	64.4	0.5	AUD/EUR	0.6093	0.6111	0.6051	0.6051	Germany	-0.51	0.00
Coal (coking)	141.0	-3.9	AUD/CNH	4.8238	4.8490	4.7918	4.7917	Japan	0.04	0.01
Iron Ore	117.5	1.1	USD Index	93.5	93.8	93.3	93.8	UK	0.29	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: Comments from US Fed Chair Powell and President Trump regarding a US economic stimulus package moved US markets.

Share Markets: Having risen earlier in the day on the back of expectations of a budget stimulus package, US markets then fell heavily on an announcement from President Trump that stimulus negotiations would be suspended until after the US election in November. The Dow ended the day down 1.3%, the S&P500 fell 1.4% and the Nasdaq was down 1.6%. Earlier, in Europe, the FTSE100 rose 0.1% and the German Dax was up 0.6% despite concerns regarding the spread of COVID-19 across the continent.

Interest Rates: US 10-year government bond yields fell 4 basis points on expectations of a weaker economic recovery while in Australia, long bond yields rose 5 basis points on the back of expectations of a strong fiscal stimulus.

With the RBA on hold, movements in shorter term yields were muted.

Foreign Exchange: The US dollar index edged higher overnight rising from 93.5 to 93.7. The AUD moved lower against USD as did the NZD. Markets in the major currencies had been quiet until news broke of the suspension of US stimulus talks.

Commodities: Oil moved higher for a second day as hurricane Delta headed towards oil and gas platforms in the Gulf of Mexico. Copper and gold were both weaker.

Australia: The 2020-21 Federal budget aims for a budget deficit of $213.7bn following an $85.3bn deficit in 2019-20.

The key business elements of the Budget were temporary incentives for businesses to invest via instant asset write-offs and a temporary ‘loss carry-back’ provision allowing most businesses to offset losses against previous profits on which tax has been paid.

Businesses will also benefit from the previously announced extension of the JobKeeper scheme and incentives to hire young workers and apprentices. There will be assistance to manufacturers under the Modern Manufacturing Strategy and the indirect benefits of increased infrastructure spending.

Personal income tax cuts, estimated at $17bn in 2020-21, were brought forward to July 1, 2020. These will add to demand within the economy. The 32.5% tax rate will apply from $45k rather than $37k and the 37% tax rate will apply from $120k rather than $90k.

Adding to demand will be additional cash payments for pensioners and other welfare recipients of $250 in December 2020 and March 2021 at a total cost of $2.6bn in 2020-21.

The First Home Loan Deposit Scheme was extended to provide an additional 10,000 place in 2020-21.

Other areas of spending included water infrastructure, tourism promotion, support for low emission energy production, R&D tax changes and a program to lift the economic security of women.

The Budget expects net debt to rise to $703.2bn in 2020-21 leading to $13.3bn in net interest repayments. Due to the low interest rate environment, the debt service ratio is estimated at 2.9% of Federal government revenue.

Yesterday, the RBA left its cash rate target, and its target for 3-year government bond yields, at 0.25%. The RBA board 'continues to consider how additional monetary easing could support jobs as the economy opens up further', suggesting to us that the RBA will cut their targets to 0.10% in November.

The theme of trade surpluses continued in August, but the trade surplus is off its highs. The August trade surplus narrowed to $2.6 billion, from $4.7 billion in July and from an average of $8.2 billion a month for the four months to June. During August, imports unexpectedly rose by 2% and export earnings fell 4.2%.

Job advertisements rose 7.8% in September, after a rise of 2.6% in August. It is the fifth consecutive month of growth.

The weekly Roy Morgan survey of consumer confidence lifted again in the latest week, taking the string of weekly improvements to five. For the week ending October 4, the consumer confidence index rose to 95.7, from 95.0 in the previous week. The index remains under the critical level of 100, which suggests pessimism over the outlook is still the overwhelming theme.

United States: In a speech, Fed Chair Jerome Powell, urged the President and Congress to err on the side of greater spending to avoid a weak economic recovery. This buoyed markets. However, later in the day, President Trump announced that he was suspending stimulus talks until after the election.

US job opening fells for the first time in four months in August. Openings fell to 6.49mn following 6.62mn in July.

Today's key data and events:

AU AiG Perform. of Services Index Sep prev 42.5 (8:30am)
AU Payroll Jobs & Wages w/e September 19 (11:30am)
UK House Price Index Jul y/y exp 3.6% prev 3.4% (7:30pm)
UK Unit Labour Costs Q2 y/y prev 6.2% (7:30pm)
US FOMC Minutes for September 16 Meeting (5am)
US Consumer Credit Aug $14.0bn orev $12.3bn (6am)

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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