

# Economic and market update

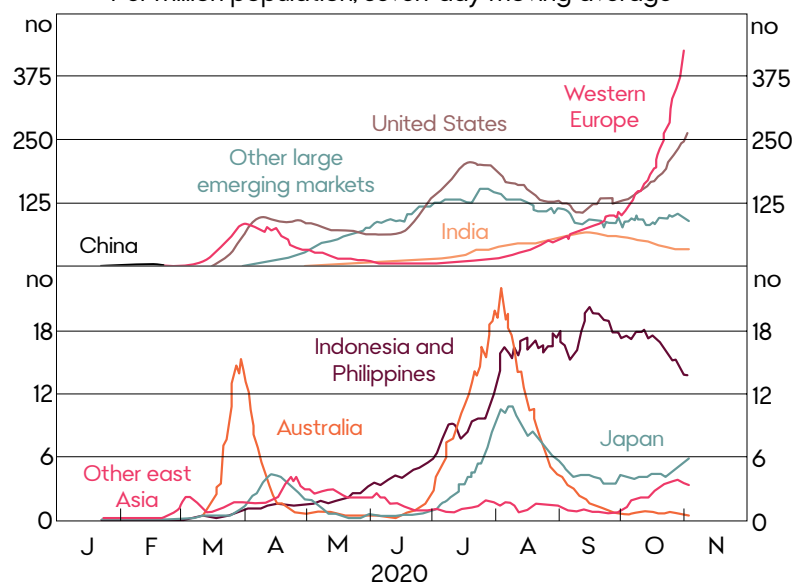
## Economic Overview – as of 19th November 2020

### Global markets

The successful clinical trials of both the Pfizer/ BioNTech and Moderna COVID-19 vaccines have boosted stock markets over the last fortnight, which were already on the rise in the wake of the US election. However rising infection numbers and lockdown measures in the US and Europe add complexity to pricing in the medium-term upside for markets that will come from a viable inoculation. This chart (and those in the appendix) show the significant variations in case numbers and economic consequences by country and region. These are likely to continue to be uneven and policy dependent.

#### COVID - 19 - New Cases per Capital

Per million population, seven-day moving average



Sources: Johns Hopkins CSSE; RBA

The US election outcome (albeit still in dispute) calmed the markets and boosted risk appetite given the Biden Democrat victory was only in the White House and Republicans have maintained control of the Senate. This is seen as a less aggressive 'lurch to the left', as there is less chance of any increases to corporate tax rates or high-income earners. The result facilitates a smaller fiscal package, though still around US\$1.5 trillion, potentially ahead of Biden's inauguration on January 20th. The main change should be seen in greater multilateralism and an intent of global cooperation, although it is most unclear what this will mean for existing US/ China trade tariffs. The Biden administration is likely to be less protectionist, but relations with China may remain strained. The USA will likely resign to Paris commitments, including being carbon neutral by 2050, although the Senate may limit some of the promised spending on renewables. Meanwhile US economic data has been fairly resilient, especially in the housing market.

Chinese economic data continues to run ahead of forecasts suggesting that policy stimulus has maintained momentum through October. Even the services sector is ahead of pre-pandemic levels, so the Chinese economy will probably be very close to 2% growth in 2020. Growth forecast for 2021 ranges from 7.5% to 9.5%. Elsewhere in Asia forecasts for 2021 continue to be upgraded, including for South Korea and Japan (both to around 3%). The Japanese stock market has just reached its highest level since June 1991, helped by vaccine news and regional strength.

In contrast to Asia (and to a lesser extent North America) the outlook for Europe remains grim amid rising COVID-19 infection numbers and renewed lockdowns. As data in the appendix shows, population mobility is constrained, so the recovery in manufacturing will not be matched by the services sector, especially in countries more dependent on tourism. The vaccine progress will maintain some confidence, as will the European Central Bank stance of doing 'whatever it takes', however EU and UK economic activity may remain below trend for some years in the wake of the pandemic.

## Domestic economy

The RBA rate cut to 0.1% for the official cash rate (OCR), the target yield on three-year bonds and new drawings on the term funding facility (TFF) was fully priced in to the market by November 3rd. Nevertheless, \$100 billion over six months in Quantitative Easing (QE) was a surprise, being both a larger amount and a shorter period of time. Further QE is expected as the next step should additional monetary stimulus be required, and subsequent RBA speeches and minutes from the policy meeting continue to state that negative policy rates are most unlikely. Data subsequent to this latest policy suggests further easing may not be required, as does the promising vaccine news, although the latest COVID-19 outbreak in Adelaide is a reminder of the fragility of this COVID-safe period.

Jobs data released today for October was well ahead of forecast for employment, hours worked and the participation rate. This adds further evidence that the low point for jobs was early May. The unemployment rate edged higher to 7.0% (from 6.9% in September) having peaked in July at 7.5%, and while this ratio may remain in a 6.5% to 7.5% band during the COVID-safe period, an improvement is expected after the rollout of a viable vaccine. Even ahead of a post pandemic economy, the following chart shows that we are now close to 12.8 million employed people, having fallen from 13 million to 12.1 million earlier in the year. A fall in underemployment was also welcome.



Source: Australian Bureau of Statistics, Labour Force, Australia October 2020

The concern remains that these numbers are artificially inflated by JobKeeper and other fiscal support measures, however both JobKeeper and JobSeeker are in place until at least March. The overall level of fiscal support from both Federal and State government is massive- which admittedly comes at the cost of higher levels of government debt- but the support itself is proving effective. In addition, the actual interest bill on federal debt as a percentage of GDP is actually falling, thanks to the ultra-low rates and QE. The effectiveness of the fiscal and monetary policies is seen via consumer sentiment which is at its highest level since 2016 and business confidence being at its highest level for 18 months.

The Aussie dollar remains in its 70 to 74 cent band, having tested the downside ahead of the US election. While it is forecast to rise modestly in 2021 due to a weaker greenback and COVID relativities, it remains relatively low on a trade weighted basis. Part of the RBA rationale for more aggressive bond buying has been the necessity to address 'QE differentials' as opposed to outdated interest rate differentials, which will continue to be a strong consideration for monetary policy.

## Interest Rate Outlook

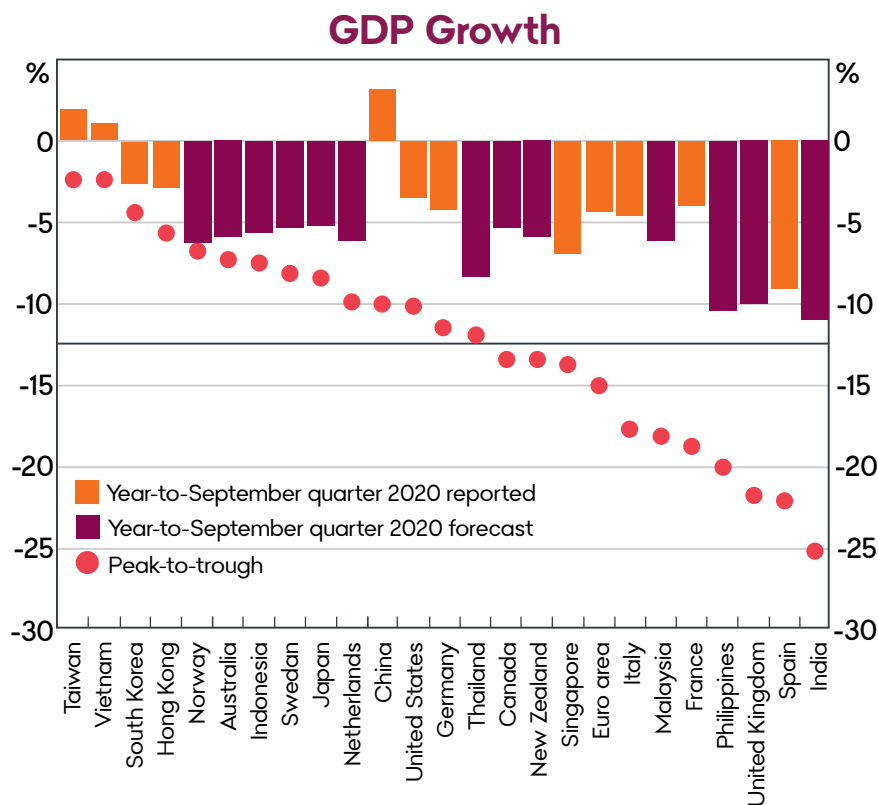
The RBA rate cut to 0.10% for the cash rate, the targeted yield on three-year bonds and new drawings of the TFF is likely to be the low point for these targets, with any further monetary stimulus to come in the form of increased QE rather than entering the world of negative interest rates. The RBA has stated it expects the OCR to remain at its current level for at least three years, although faster progress in achieving full employment and inflation above 2% is not out of the question.

	30/9/19	30/9/20	30/10/20	19/11/20
90-day bills	0.95 %	0.09 %	0.06 %	0.02 %
3-year swap	0.74 %	0.14 %	0.08 %	0.12 %
5-year swap	1.07 %	0.31 %	0.29 %	0.32 %
AUD/USD	.6765	.7175	.7020	.7295
ASX 200	6 688	5 816	5 928	6 525
Credit Index (iTraxx- 5 yr)	67	76	69	59

Source: Refinitiv

## Appendix

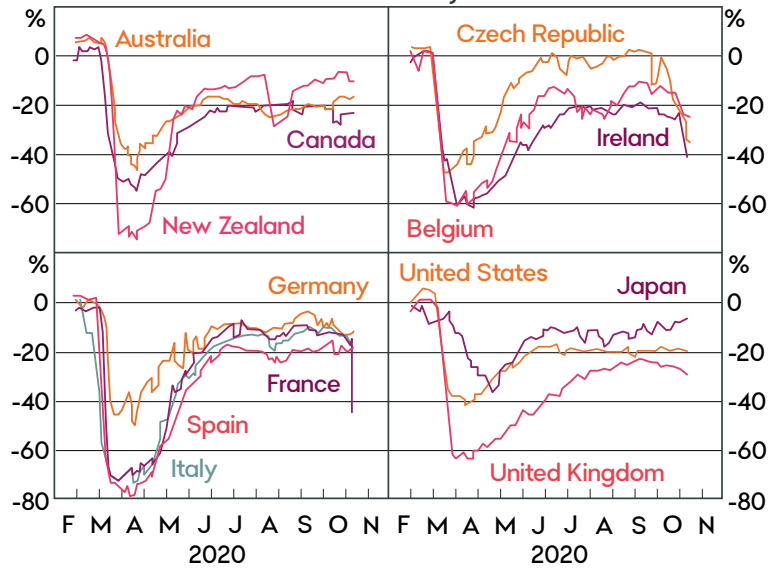
### International comparisons



Sources: CEIC Data; Consensus Economics; RBA; Refinitiv

## Population Mobility

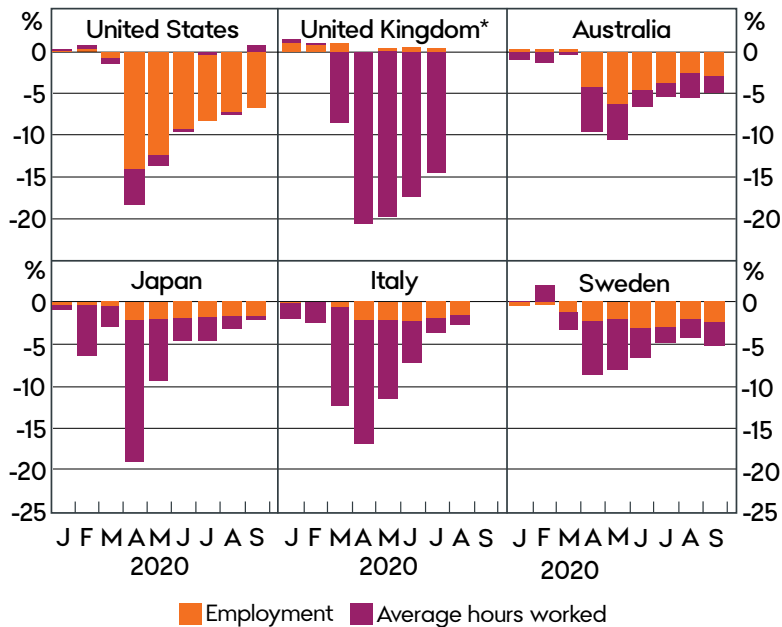
Deviation from January, smoothed



Sources: Google LLC (2020), 'Google COVID-19 Community Mobility Reports', available at <https://www.google.com/covid19/mobility/> viewed on 4 November 2020; RBA

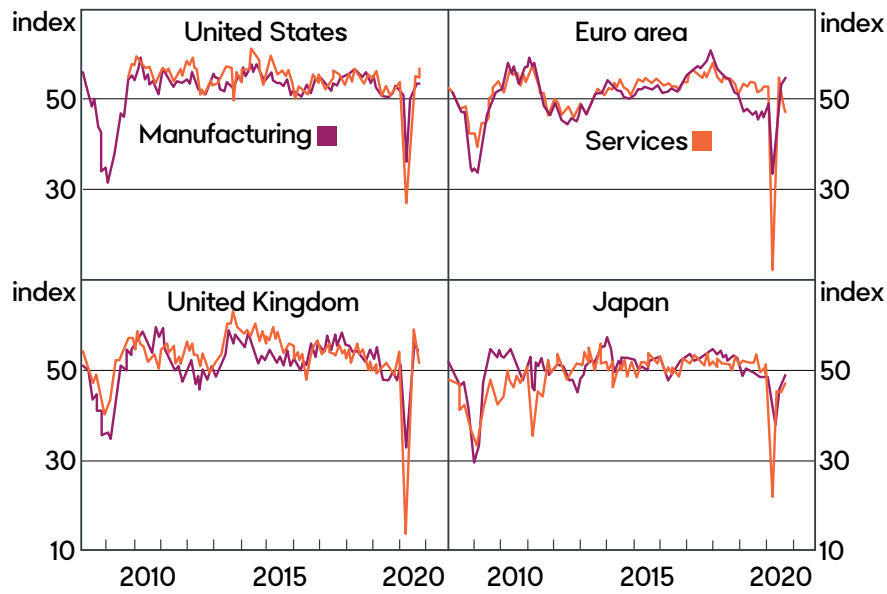
## Cumulative Change in Hours Worked

Contributions since December 2019



\* United Kingdom data are derived from the weekly Labour Force Survey  
Sources: CEIC Data; Office for National Statistics; RBA; Refinitiv

## Surveyed Business Conditions\*



\* Purchasing Managers' Index; below 50 indicates that activity is contracting  
Sources: IHS Markit; RBA

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