

## Markets Summary – November 2020

*Taken from the CBA CBA Global Economic and Markets Research report, "November Month in Review", first published on 1 December 2020 and "Dwelling Prices –Nov, Building approvals- Oct 2020" first published on 1 December*

### Highlights in November

- Australian bonds saw yields rise in December as the vaccine news dominated markets.
- Credit markets had their best month this year with credit spreads narrowing.
- The Australian dollar enjoyed a solid rise.
- Equities enjoyed their best month in 23 years.
- In terms of commodity prices, oil was stronger as were iron ore prices.
- Australian dwelling prices recorded the second consecutive monthly rise, up by 0.7%.

### Summary

Markets in November were dominated by a further interest rate cut in Australia and the announcement of a \$A100bn bond buying program, the result of the US election and the overwhelming driver was the announcement of a vaccine for COVID-19 by several companies. These combined to help risk markets and lift yields and the changed the shapes of interest rate curves across the globe.

The Australian dollar (AUD) had a strong month against all currencies bar the New Zealand dollar (NZD) despite the rate cut. It was a good month for equities, with November putting in the best performance in over two decades. Credit had its best monthly performance in November despite a reasonable pickup in issuance volume.

### Cash

The RBA cut a series of its policy rate tools in November, as was largely factored in to the market ahead of the meeting. The largely symbolic cash rate target was cut from 0.25% to 0.1%, the three-year yield bond yield target was also cut from 0.25% to 0.1%, and new Term Funding Facility drawdowns were also cut from 0.25% to 0.1%. The rate paid for surplus exchange settlement balances fell from 0.1% to 0%. This cut was a surprise to the market. Additionally, the Reserve Bank of Australia (RBA) started a bond purchase program of \$A100bn of Australian Commonwealth Government Bonds and State government bonds (80%/20% split) over the next 6 months with a maturity of 5 to 12 years.

Bank Bill Swap Rates traded at just under 2bp for both 1 and 3 month tenors, but has since settled at 2bp, while the 6 month, also made a new low just above 2bp. Over the latter part of the month, there was a modest increase in these rates markets started to look positively at incoming data and sentiment.

### Australian and Global Fixed Interest

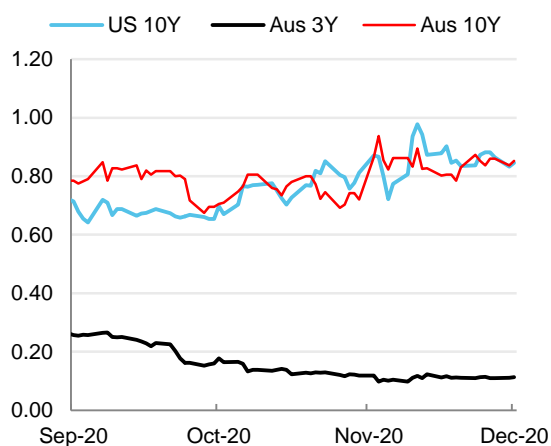
The start of November was marked by a further ratchet lower in yields for the front end of the Australian bond market, driving the yield curve flatter and helping to narrow the spread between Commonwealth government bond yields and state government bond yields given the announced purchases by the RBA. However, that was as good as it got, with most of the rest of the month spent on the back foot, as yields rose, the curve steepened, and state government bond yields rising more than the Commonwealth government in the shadow of large borrowing announcements in the state budgets.

The shift higher in yields and the curve was a global move, driven by the results of the US election and the announcement of COVID-19 vaccines. At the same time, the realisation of excess liquidity and ultra-low monetary policy was starting to impact. Australian yields moved higher and back above those of the US, despite the tailwinds of reduced bond issuance in Australia and RBA bond purchases. The AUD/USD also strengthened.

State government issuers announced borrowing programs with a significant lift in state budget deficits and debt requirements for 2020/21.

At month end, the benchmark 3 year bond yield fell from 0.14% to 0.11%, with a low of 0.105%. The 10Y bond (started the month at 0.828%, going above 1% briefly, before ending the month at 0.895%. The yield curve steepened from 66bp to 82bp, finishing just below 72bp.

**Chart 1 – Australian bond yields**



Source: Bloomberg, CBA

## Global Credit

The US election result, positive vaccine news and the reopening of Victoria triggered a very strong rally in credit spreads in November. AUD non-financial credit spreads were 30bps tighter for the month and financial spreads were 13bps tighter. Industries which have lagged in this year's rally, in particular retail REITs, airline and airports, all outperformed in November.

There were plenty of primary activities and demand for bonds in secondary markets remained buoyant throughout the month. Most of the Australian banks reported a modest deterioration in asset quality,

and forecast a tick up in delinquencies in 2021 as loan deferrals and government stimulus is tapered. Earnings continue to be impacted by higher credit impairment charges as forecast under the expected credit loss framework. Liquidity also remains high, and has negatively impacted net interest margins.

## **Global Equities**

November was a momentous month for global sharemarkets. The US election was held – and after a delay of almost a week – the result was delivered. And there was progress in the development of a number of vaccines to protect against the COVID-19 virus. Many global sharemarkets posted their biggest monthly percentage gains in decades – and in some cases, the best gains on record. On November 7, former Vice President Joe Biden was declared the winner of the US Presidential election and global sharemarkets responded to that news on November 9, this coincided with positive news on the vaccine front with US drugmaker Pfizer and its German partner BioNTech said data from the trial of their vaccine showed it was more than 90 % effective in preventing COVID-19.

Over the month in November, the US Dow Jones index rose by 11.8 % (best gain since January 1987), the S&P 500 index gained 10.8 % and the Nasdaq index rose by 11.8 %. In Europe, the German Dax index rose by 15 % and the UK FTSE lifted 12.4 %. In Asia, Japan's Nikkei index soared by 17.2 %, while Australia's ASX 200 index gained 10 % - its best performance since March 1988.

Across Australia's 22 sub-industry sectors, all but three posted gains in November. Leading the gains was Energy (up 28.4 %) from Banks (up 17.2 %). But Autos & components (down 10.2 %) led the falls from Consumer durable & apparel (down 7.6 %) and Food & staples retailing (down 1.5 %). Of the size categories, the ASX50 index rose the most (up 10.7 %) from the Small Ordinaries index (up 10.2 %), the ASX100 index (up 9.9 %) and MidCap50 index (up 6.5%).

## **Australian Dollar**

The Australia trade weighted index increased by 3.4% in November. AUD increased against all of the currencies we monitor except NZD.

AUD/USD trended higher more or less throughout November. AUD/USD traded in a wide 1½ US cent range around the US election in early November. Global equity markets lifted significantly, helping to pull AUD/USD higher.

AUD/USD eased by 30pips after the Reserve Bank of Australia eased monetary policy further, including a commitment to purchase \$A100bn of Australian government and Semi government bonds. Policy easing had been telegraphed by senior RBA officials. In its November Statement on Monetary Policy, the RBA upgraded its near term assessment of the Australian economic outlook.

### **Table 1 – Australian dollar November performance**

AUSTRALIAN DOLLAR			
	End Oct	End Nov	M/M %
	30-Oct-20	30-Nov-20	Change
AUD-USD	0.7028	0.7344	4.5
AUD-JPY	73.56	76.67	4.2
AUD-EUR	0.6035	0.6156	2.0
AUD-GBP	0.5427	0.5511	1.5
AUD-CHF	0.6445	0.6676	3.6
AUD-CAD	0.9360	0.9543	2.0
AUD-NZD	1.0625	1.0471	-1.4
TWI	59.5	61.5	3.4
<b>Month High</b>		0.7407	30-Nov-20
<b>Month Low</b>		0.6991	2-Nov-20

Source: Bloomberg, CBA

## Commodities

Commodity prices finished mostly higher in November on demand hopes linked to successful COVID-19 vaccine trials. A weaker US dollar also helped commodity prices higher. Coking coal and gold were notable exceptions, with both commodities finishing the month lower.

Oil prices rose strongly in November as vaccine hopes spurred optimism over demand. The possibility of increased mobility has particularly positive implications for oil consumption. That's because transportation accounts for around two-thirds of oil demand. Stronger demand expectations though are only expected to lead to meaningful increase in global oil consumption in H2 2021. Nevertheless, demand expectations outweighed growing near-term weakness in oil demand.

Iron ore lifted in November as rising steel mill margins in China prompted the steel-making ingredient higher. Margins have primarily been supported by stronger demand, driven by China's infrastructure, property and manufacturing sectors.

Coking coal prices declined in November on ongoing concerns that China is limiting their purchases of Australian coking coal. The breakdown of China's coking coal imports for October suggest this is the case.

## Australian Property Prices

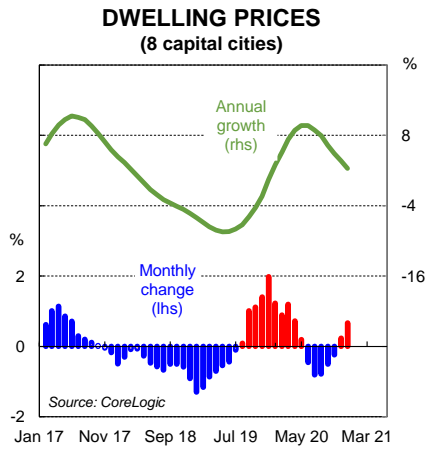
The Corelogic data showed a 0.7% lift in dwelling prices across the eight capital cities combined in November. There were gains across all the capital cities in the month. Dwelling prices in the regions rose too in November.

The smaller cities posted the strongest gains in November. Darwin (1.9%) and Canberra (1.9%) recorded the largest gains followed by Hobart (1.4%), Adelaide (1.3%) and Perth (1.1%). Melbourne rose by 0.7% while Sydney was up by 0.4%.

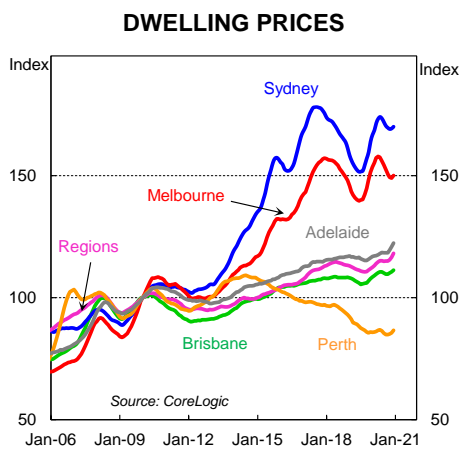
The Melbourne property market felt the brunt of the coronavirus pandemic which isn't surprising given the second wave of cases and tight restrictions in Victoria over the third quarter. The peak to trough fall for Melbourne was 5.5% between March and September 2020. Sydney saw a smaller downturn with prices falling 2.9% during the pandemic. Prices have stabilised in both Sydney and Melbourne in

recent months. Dwelling prices in Adelaide, Brisbane and the regional areas look to have been relatively unaffected by the pandemic.

**Chart 4 – Dwelling Price moves – monthly change and annual change**



**Chart 5 – Dwelling Price Index**



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