

30th November 2020

INVESTORS BUOYED BY MORE POSITIVE VACCINE NEWS

MARKETS

- **Local and global equity markets moved higher this week buoyed by more positive vaccine news** as another vaccine showed positive phase 3 results whilst another provider asked for emergency use authorisation.
- **In local stock news, the bank regulator wound back its requirement that the Commonwealth Bank carry an extra \$1 billion in risk capital** by \$500 million. The move comes after the regulator was satisfied the bank had made progress in addressing concerns about governance.
- **Bega Cheese raised equity this week to fund their acquisition of Lion Dairy & Drinks for \$534 million**, which will see Bega pick up milk, cream, juice, and yoghurt brands such as Dairy Farmers, Pura, and Yoplait. A little over \$400 million of the purchase price will be raised via new equity.
- **The oil price rose this week as positive vaccine news pointed to potential increase in demand** whilst speculation rose that OPEC may look to make further supply reductions.

ECONOMICS

- **Australian retail trade showed a 1.6% lift in October** with the Australian Bureau of Statistics reporting a strong 5.2% uplift in trade in Victoria as restrictions began to subside. Retail trade is up 7.3% compared to a year ago.
- **178,800 jobs were added in October according to the Australian Bureau of Statistics, versus market expectations of a 40,000 fall** in response to the tapering of JobKeeper payments. The latest employment number has reduced the total jobs lost this year from 917,000 to around 195,000. The unemployment rate did rise to 7% due to a sharp increase in people looking for work. A good set of numbers and hopeful momentum can be maintained. However, next year might be a different story as we transition off JobKeeper and JobSeeker entirely.
- **According to new Reserve Bank of Australia modelling, overall employment losses would have been twice as large over the 1st half of the year without JobKeeper**, but the scheme only saved the jobs of 20% of the individuals it covered which prevented the

termination of at least 700,000 additional workers from April to July. Around 650,000 people did become unemployed during that period. 3.5 million individuals were covered by the program at its peak.

- **Australian construction work completed in the 3rd quarter fell by 2.6%, against expectations of a 1.9% decline**, with residential completions falling by 1% and non-residential falling by 3.4%. Engineering work fell by 3.3% in the same quarter. Residential completions now sit about 18% below the peak in mid-2018. Residential construction was mixed with a 1.1% rise in new homes but a 6.2% fall in apartments, whilst renovation activity was up 5.1% in the quarter.
- **The volume of capital expenditure spending in Australia fell by 3% in the 3rd quarter.** Mining and non-mining investment both fell. Spending intentions were largely unchanged from three months ago which would imply a 4.9% fall over the year. Mining investment intentions were downgraded whilst non-mining investment intentions were upgraded. Non-mining investment is now down more than 18% over the past year.
- **US Treasury and the US central bank went at it this week after the Treasury sent the bank a list of funds to be repaid**, that would allow Congress to re-appropriate US\$455 billion that was earmarked for central bank support programs. It makes sense they've called the money back in given the emergency levels of March/April have passed and the government needs the money, but it removes a fairly sizable tool from the central bank's toolkit which means less ammunition and lessens their ability to provide comfort to markets.
- **Eurozone business activity contracted sharply in November as new virus restrictions across European countries** forced many companies in the regions dominant service industry to close temporarily. Manufacturing activity remained a bright spot as many factories have remained open. **Data showed that the German economy grew by a record 8.5% in the 3rd quarter.**

POLITICS

- **On the vaccine front, the AstraZeneca / Oxford University vaccine showed positive phase 3 results, providing a 3rd viable vaccine.** The vaccine showed less efficacy (70%) than the Pfizer and Moderna vaccines, but interestingly showed very high efficacy when the 1st dose of the vaccine was halved. Importantly, this vaccine can be stored in normal refrigeration, production can be ramped up quicker, and will cost significantly less than the other 2 vaccines. Pfizer has applied to the US FDA for emergency use authorisation of its vaccine.

- **Australian coal worth more than \$700 million is being held up at Chinese ports** because of “apparent” problems with environmental standards. Odd considering we have some of the cleanest coal in the world. Dozens of bulk carriers have been stuck off the Chinese coast for months due to “safety and quality” inspections aimed at Australian exports.
- **The NSW-Victorian border opened this week with flights between the states also resuming, whilst Queensland is set to open its border to NSW residents on 1 December.** NSW is now the only state open to people from all states and territories. A reduction in federal funding would likely see all other states open their borders.
- **A range of pandemic aid programs in the US are set to expire in the new year, leaving millions of Americans without government support.** Considering the jobless rate is still very high in the US and some states have been increasing Covid restrictions, a new set of stimulus can’t come fast enough for many Americans, absent a full opening of the economy (ie. no Covid restrictions).
- **The US election result remains undecided whilst legal challenges continue.** This week we saw additional legal challenges from people and organisations other than team Trump claiming fraud and that election officials didn’t follow the law, whilst at the same time we saw some state election officials confirm the results of their elections. Joe Biden has begun earmarking people for certain roles giving some insights into what a Biden administration may look like. A department of the US government has released funding to support a potential presidential transition.



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