

1st February 2021

EQUITY MARKETS FALL ON VACCINE ROLLOUT CONCERNS

MARKETS

- **Local and global equity markets fell this week on concerns regarding vaccine rollout** and on whether company reporting season will be enough to justify the lofty valuations on some stocks.
- **In local stock news, the CEO of Fortescue Metals Group said she sees no slowdown in the demand for iron ore from China**, despite stagnant shipments for the 2nd quarter.
- **An otherwise quiet week on the stock news front as company reporting season is about to get under way.** Will be interesting to see how companies go in the last period and how forgiving or supportive investors are of these results.
- **The Aussie dollar fell against the US dollar this week** as the US dollar received some support whilst Australian inflation data and talk of the Reserve Bank of Australia readying another round of quantitative easing put downward pressure on the Aussie.

ECONOMICS

- **The preliminary estimates for Australian retail trade shows a 4.2% fall in retail trade in December 2020**, which is large, but follows on from a 7% rise in November. In the quarter, retail trade rose by a strong 5.4% while volumes lifted by 2.4%, implying a high rate of inflation in the retail sector. Over the year, retail trade is up by a bumper 19%, benefiting from a shift in spending away from services and towards goods.
- **Australia enjoyed its 4th highest goods trade surplus on record in December**, with exports jumping 16% in the month. Imports from China fell by 7% while exports increased by 21%.
- **Australian CPI inflation for the December quarter came in above expectations but annual inflation still remained weak at 0.9%.** No pressure on the RBA to remove stimulus, but possibly more pressure on the RBA to add more quantitative easing especially given the recent strength in the Aussie dollar.
- **The US central bank maintained their policy course** with no change in the Fed Funds Rate and US\$120 billion in bond purchases a month.

- **A key manufacturing data point from Europe showed that the economy is likely going backwards again risking a double-dip recession.** Private sector activity fell to contractionary levels with the service sector continuing to lag. Manufacturing in Germany remained strong, no doubt supported by the strong Chinese recovery, but output in the UK fell at the quickest pace since May with Brexit delays not helping.
- **In contrast to weaker European data, US manufacturing activity surprisingly surged to its highest level in more than 13 years in early January.**
- **The European central bank is considering additional stimulus measures and potentially new stimulus as inflation remains stubbornly low** and the rise in the euro currency against the US dollar puts the European recovery at risk.
- **China's industrial firms grew for the 8th straight month in December**, as China was the only major country to avoid a contraction in 2020.

POLITICS

- **Australia's Therapeutic Goods Administration has approved Pfizer's covid-19 vaccine for use, the first vaccine to be approved for use in Australia.** The approval is provisional, meaning it's valid for 2 years. It allows the vaccine to be supplied for people aged 16 and over, with 2 doses required at least 21 days apart. The Pfizer and Moderna vaccines were shown to be more effective in phase 3 trials than the AstraZeneca one, which is the one our government pre-bought in the most supply. In other vaccine news, vaccine rollout continued to be a problem globally with demand outstripping supply, but the bigger issue was governments struggling with rollout. Hardly surprising.
- **US President Biden got cracking on the executive orders front with 19 within the first 3 days of his presidency** – 4 times more than Obama and almost 3 times more than the last 4 presidents combined. Not a lot of surprises, but some pretty contentious changes nonetheless. Some included re-joining the World Health Organisation and the Paris Climate Accord, mandated masks on federal land and planes and an order that departing international travellers must show a negative test and incoming passengers must quarantine on arrival, halted building of the border wall and axed the travel ban on several Muslim and African countries, revoked the construction permit for the Keystone XL oil pipeline, and directed federal agencies to extend moratoriums on evictions and foreclosures until March 31 and paused federal student loan interest accrual and principal payments through to September 30. Other items on his agenda including lifting the minimum wage and re-opening schools.
- **Google has threatened to disable its search engine in Australia if it's forced to pay local publishers for news**, following a month-long standoff with the federal government. The

proposed law would force Google to compensate publishers for the value their stories generate. It's about time someone stepped up against these tech giants who think they can do whatever they want. It's not the first time the Australian government has had a crack at Google. What's disappointing is that little old Australia is the only one willing to stand up, as further witnessed our issues with China.

- **Pleasingly, US senate Democratic and Republican leaders agreed to delay Trump's impeachment trial given it wasn't of the utmost importance.** Fairly obvious to most that virus, vaccine, and economic recovery are significantly more important than impeaching a non-sitting president. In any case, the Republicans tried to put an end to the impeachment process but failed with 55-45 in favour of continuing. However, assuming the same 45 senators vote against impeachment, it means that Trump won't be impeached as a super-majority is required.



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