

Weekly Wonderings: Tuesday 13 October, 2020

Quote of the day...

“We have a two-party system: The Democratic Party, which is a party of no ideas, and the Republican Party, which is a party of bad ideas...” – Lewis Black

The short story “no news is good news..?”

- Overview** – Columbus Day in the US overnight, which has meant bond markets and credit markets (cash) closed, while stock markets continued to trade. News flow was muted, at least nothing market moving, or should be considered market moving – no progress on the US fiscal stimulus package negotiations.
- Stocks** – with the rest of financial markets in the US closed all attention, and flow as it would seem, was focused on stocks. Particularly tech stocks, which let rip with solid gains. Amazon and Apple led the way, with strong gains in the NASDAQ. The tech heavy index is now ↑73% up from its pandemic lows, and still ↑38% YTD. Attention tonight will swing to US earnings season with JPM and Citi set to report Q3 results. Focus will again be on loan loss provisions, with consensus expecting the four biggest banks to set aside another \$10bn for bad loans in Q3. Trading will probably drive big revenue gains.
- Offshore Credit** – US IG quiet given Columbus Day public holiday. In EU IG, investors and borrowers alike potentially hitting the pause button as corporate earnings season approaches and risk of renewed lockdown measures and containment efforts across several European nations as the second wave builds, while China recorded a new cluster of infections, its biggest for months. The week is heavy with potential BREXIT related outcomes. Nevertheless, spreads inched tighter across cash and synthetics.
- Local Credit** – in a word, ‘strong’, that was the tone in local markets yesterday. Major bank senior curve clawed out some modest tightening with 3Y at +32 bps, ↓1.5 bps, while the Jan-25’s moves ↓0.5 bps tighter to +42.5 bps. In the tier 2 space, spreads ‘ripped’ in. ANZ 31-16 closed ↓2 bps tighter at +177 bps and NAB 31-26 outperformed on the day, ↓5 bps tighter at +185 bps. CBA’s 30-25 was quoted at +172 bps, ↓2 bps on the day. The 29-24 suite of deals moved ↓3 bps tighter to +167 bps.
- Bonds** – US markets closed for Columbus Day – no change, while European bond markets rallied ↓2 – 5 bps. Little changed in local bond markets yesterday. domestically the focus this week is RBA Guvna Lowe’s speech on Thursday, titled “The Recovery from a Very Uneven Recession”. There is an expectation amongst market commentators that Lowe may provide further insights into the RBA’s forward thinking in terms of monetary policy.
- US Election** – Joe Biden’s lead in the national polls has increased marginally, to 51.8 vs Trump at 41.6, implying around 6.6% remain undecided (much lower than at the same stage of the 2016 campaign). Given the structure of the US voting system, national polls can be misleading – so don’t believe the hype, although markets pricing it. State level polling is more informative given the “Electoral Votes” are what elect Presidents. Regardless, the consensus view is Biden will win, control Congress, but with Republicans to retain the Senate. Betting odds have narrowed. Biden has widened to \$1.48 (vs \$1.38 late last week), while Trump has come in to \$2.60 (vs \$3.60).

“Buy and Hold...”



Source: www.hedgeye.com

At a glance....		Last	1D	30D
EQUITIES	ASX 200	68,126	0.5%	4.7%
	DOW	28,838	0.9%	4.2%
	S&P 500	3,534	1.6%	5.8%
	NASDAQ	12,088	3.1%	9.0%
	STOXX	373	0.7%	1.4%
CREDIT	AusBond FRN (bps)	46.7	-2.21	-3.75
	AusBond Fixed (bps)	93.6	-0.53	-1.15
	US Fin (OAS, bps)	103.1	0.00	-5.13
	EU Fin (OAS, bps)	63.4	-1.41	-5.13
BONDS	ACGB (10Y, %)	0.846	0.00	-0.07
	ACGB (3Y, %)	0.135	0.00	-0.12
	UST (10Y, %)	0.774	0.00	0.11
	UST (2Y, %)	0.153	0.00	0.03
FX & COMDTY	Oil (Brent, \$/bbl)	41.75	-2.6%	4.8%
	Gold (\$/oz)	1,923	-0.4%	-0.9%
	AUDUSD	0.721	-0.4%	-1.0%
	AUDEUR	0.611	-0.2%	-0.7%

Source: Bloomberg, Mutual Limited

