

Morning Report

Friday, 10 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,955.5	0.6%	Last		Overnight Chg			Australia		
US Dow Jones	25,706.1	-1.4%	10 yr bond	99.11			0.03	90 day BBSW	0.10	0.00
Japan Nikkei	22,529.3	0.4%	3 yr bond	99.71			0.00	2 year bond	0.25	0.00
China Shanghai	3,616.9	1.4%	3 mth bill rate	99.88			0.00	3 year bond	0.26	0.01
German DAX	12,489.5	0.0%	SPI 200	5,896.0			-24	3 year swap	0.19	-0.01
UK FTSE100	6,049.6	-1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.90	0.03
Commodities (close & change)*			TWI					United States		
CRB Index	140.5	-1.5	AUD/USD	0.6981	0.7001	0.6950	0.6961	3-month T Bill	0.12	-0.02
Gold	1,803.6	-5.3	AUD/JPY	74.89	75.06	74.57	74.63	2 year bond	0.15	-0.01
Copper	6,300.9	67.9	AUD/GBP	0.5535	0.5540	0.5513	0.5522	10 year bond	0.61	-0.05
Oil (WTI)	39.6	-1.3	AUD/NZD	1.0618	1.0629	1.0589	1.0597	Other (10 year yields)		
Coal (thermal)	57.6	-0.8	AUD/EUR	0.6160	0.6173	0.6145	0.6168	Germany	-0.46	-0.02
Coal (coking)	115.6	0.5	AUD/CNH	4.8859	4.8911	4.8618	4.8709	Japan	0.03	0.00
Iron Ore	103.2	0.5	USD Index	96.5	96.8	96.2	96.8	UK	0.16	-0.03

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 8am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Risk appetite was mostly weaker, likely reflecting the concern over increased COVID-19 cases in the US. US jobless claims continued to fall but is still suggesting elevated unemployment. US stocks mostly fell, bond yields were lower and the Australian dollar eased slightly.

Share Markets: Sentiment began positive in the European session but faded later on. US shares were mostly down, although tech stocks continued to be resilient. The Dow finished 1.4% lower and the S&P500 fell 0.6%. Meanwhile, the Nasdaq bucked the trend lifting 0.6%.

Interest Rates: Renewed concerns about the outlook brought down yields on US treasuries. US 10-year yields fell 5 basis points to 0.61%.

Australian 10-year bond yields edged 3 basis points higher yesterday to 0.90%, although futures point to a 3-basis point decline overnight.

Foreign Exchange: The waning risk appetite was supportive of the US dollar. The dollar index partially regained its falls over the past two days. While concerns over the global economic outlook are generally a positive for the US dollar, developments around COVID-19 on the US compared to the rest of the world suggests an overall negative impact on the US dollar.

Conversely, weaker financial market sentiment saw the Australian dollar slip to 69.6 US cents after

touching 70 US cents yesterday. AUD has remained in a tight trading range over the past few weeks, holding at just below 70 US cents.

Commodities: Oil prices fell as rising COVID-19 cases in the US renewed concerns over demand. Gold prices also fell, moving inversely with the US dollar.

COVID-19: New cases globally hit 204,967 yesterday according to the World Health Organisation, the second highest on record.

Bloomberg has reported US cases topping 60,000 for the first time (which sources data from the John Hopkins University). The state of Florida had a record number of new cases yesterday following record increases in California and Texas on Wednesday. Governors appear reluctant to impose widescale lockdowns and shutdowns have been limited to certain businesses. However, there are reports that retail traffic is down significantly in these States.

In Australia, new cases in Victoria stood at 165 yesterday. NSW reported 13 new cases yesterday, but only 1 was locally acquired. The Queensland border opens from 12pm today to all States except for Victoria.

Australia: New home lending (excluding refinancing) to owner-occupiers and investors fell by the most in decades. Excluding refinancing, new

home lending fell 11.6% in May following a 4.8% decline in April. There has been a delayed impact from the pandemic on lending statistics due to the lag between the sale of a property and having the loan approved. Lending to owner-occupiers fell 10.2% (excluding refinancing) in May following a 5.0% decline in April.

Owner-occupiers had formed the bedrock of the housing market recovery that started in June last year, however, potential buyers appear to have crawled into their shells. Excluding refinancing, investor lending plunged 15.6% following a 4.2% fall in April. It was the fifth consecutive monthly decline in investor lending.

Debtors continued to take advantage of reduced interest rates in May, especially fixed interest rate loans. Despite the plunge in lending for new activity, the value of refinancing surged 25.1% – the highest on record – following an 11.4% increase in April.

While restrictions have eased somewhat, new lending activity is likely to remain anaemic and prone to downside risks. The re-imposition of lockdowns in metropolitan Melbourne and the Mitchell Shire in recent days is a prime example.

China: Inflation remains low in China, edging up from an annual rate of 2.4% in May to 2.5% in June. Producer prices remained in decline, at -3.0% in June, but this was a smaller fall in prices compared with May at -3.7%. As economic activity continues to rebound, a further pick up in prices is likely, which should be supported by an increase in policy stimulus.

Europe: Trade in Germany rebounded in May, as exports lifted 9.0% and imports rose 3.0%. However, both gains were less than expected by median estimates, and followed sharp falls of 24.0% and 16.6%, respectively. It highlights the challenges facing global recovery. A lifting of lockdown measures has supported a pick up, but demand is still subdued.

Japan: Machinery orders rose 1.7% in May, the first increase since February. Although better than the consensus estimate for a 5.0% fall, the gain points to an anaemic recovery in business spending following an end to the state of emergency. May's result followed a 0.4% fall in March and a 12.0% fall in April. The increase in May was driven by orders from services, while orders from manufacturers, which is more dependent on overseas demand, declined.

United States: Initial jobless claims fell from 1.4

million to 1.3 million for the week ending July 4, declining for the 14th consecutive week, signalling further improvement. However, significant number of people filing for benefits is indicating that unemployment remains very high.

The US Supreme Court ruled against President Trump for presidential immunity and allowed a New York prosecutor to obtain his financial records as part of a criminal investigation.

Today's key data and events:

US PPI Final Jun y/y exp -0.2% prev -0.8% (10.30pm)

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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