

Morning Report

Wednesday, 10 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,144.9	2.4%			Last	Overnight Chg		Australia		
US Dow Jones	27,272.3	-1.1%	10 yr bond	98.98		0.01		90 day BBSW	0.10	0.00
Japan Nikkei	23,091.0	-0.4%	3 yr bond	99.71		-0.01		2 year bond	0.28	-0.01
China Shanghai	3,098.6	0.6%	3 mth bill rate	99.85		-0.01		3 year bond	0.27	-0.01
German DAX	12,618.0	-1.6%	SPI 200	6,098.0		-86		3 year swap	0.29	0.01
UK FTSE100	6,335.7	-2.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.05	-0.04
Commodities (close & change)*			TWI	60.6	-	-	61.2	United States		
CRB Index	138.5	1.0	AUD/USD	0.6940	0.7013	0.6931	0.7015	3-month T Bill	0.16	-0.01
Gold	1,715.3	16.8	AUD/JPY	75.73	76.79	75.56	76.05	2 year bond	0.20	-0.02
Copper	5,755.3	74.3	AUD/GBP	0.5511	0.5537	0.5480	0.5513	10 year bond	0.83	-0.05
Oil (WTI)	38.3	0.1	AUD/NZD	1.0747	1.0771	1.0681	1.0705	Other (10 year yields)		
Coal (thermal)	54.0	-1.5	AUD/EUR	0.6122	0.6221	0.6113	0.6213	Germany	-0.31	0.01
Coal (coking)	115.3	0.9	AUD/CNH	4.9319	4.9671	4.9203	4.9523	Japan	0.02	-0.03
Iron Ore	101.1	-1.3	USD Index	96.8	97.1	96.4	96.7	UK	0.34	0.00

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7:15am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Most riskier asset classes underwent a correction overnight, as investors started to fret that recent moves were too strong and too fast, especially given underlying economic fundamentals. Most major US share market bourses fell in overnight trade. Government bond yields also retreated. Economic data was thin on the ground, but showed optimism among small businesses in the US improved.

Share Markets: US share markets fell overnight after the sharp run higher. Investors started to fret the blistering run up in equities was beyond that supported by economic fundamentals. The Dow Jones fell 300 points (or -1.1%) and the S&P 500 index declined 24 points (or -0.7%). The Nasdaq briefly topped 10,000 as Apple Inc. jumped on a news report it is preparing to announce a shift to its own main processors in Mac computers. The Nasdaq bucked the trend to close 29 points higher at a fresh record high.

We can expect volatility to continue in share markets, as uncertainty about the economic outlook remains high.

There is a risk that the Australian share market also encounters a sell off today. Yesterday the ASX 200 index closed at its highest level since March 6 and was up 35% since the low recorded on March 23.

Interest Rates: US government bond yields fell

across the curve with longer-dated maturities recording deeper declines. The US 2-year government bond yield dropped 2 basis points, while the 10-year government bond yield fell 5 basis points. A reassessment of risk and the recovery story by investors led to stronger demand for government bonds.

Foreign Exchange: The AUD/USD depreciated in overnight trade, after a pullback in global equities. The AUD had run up around 3½ cents in less than a week (including hitting our short-term target of 70 US cents on June 5). Some consolidation seems in store for the AUD/USD with some risk of a further modest correction before it tries to resume its upward stretch. With iron ore supply impacted by COVID-19 woes in Brazil and expectations of a stronger recovery in Australia in the second half of this year, there are fundamental reasons to suggest a higher AUD/USD. The technical picture (i.e. prices action) also suggests a gradual resumption higher for the AUD/USD to around 0.7400 in the short term. However, expect volatility to characterise the Australian dollar's attempt to resume its upward momentum.

Commodities: News reports suggest the US is readying new sanctions against as many as 50 tankers in a bid to block oil and fuel shipments between Iran and Venezuela. It may also pressure companies associated with those vessels; a move

that will make future shipments more challenging.

COVID-19: In Australia, there have been 2 new confirmed infections in the past 24 hours, according to the Australian Department of Health. There are 445 active cases nationally.

The global total for infections has reached 7.27 million, according to Worldometer data. The US continues to have the highest number of infections in the world at 2.04 million, followed by Brazil at 719.5k and Russia at 485.3k.

A new study by researchers from Harvard medical school, Boston University of Public Health and Boston children's hospital suggest COVID-19 might have been present and spreading in Wuhan as early as August last year.

Australia: Both business confidence and conditions improved in May, reflecting the gradual move to lift restrictions on business operations and expectations of a recovery in economic activity.

Business confidence improved for the second month in a row, lifting to -20.0 in May. It follows a reading of -45.5 in April and -65.2 in March. Despite the improvement, May's reading is still suggesting deep pessimism among businesses.

Business conditions lifted from a record low of -33.7 in April to -23.8 in May, as many businesses look to re-start operations.

The improvement in both confidence and conditions is encouraging, reflecting the easing restrictions to limit the spread of COVID-19. However, they both remain at low levels suggesting that a full economic recovery will take some time.

We receive an update on consumer confidence for June later today. In May, a partial recovery also occurred.

Job advertisements increased 0.5% in May, the first increase in three months. However, the increase followed a massive 53.4% decline in April and a 10.2% decline in March, indicating that job ads remain at very low levels and unemployment will continue to rise.

In other developments, Federal Treasury Secretary Steven Kennedy indicated that the Federal Treasury was revising its economic forecasts. In giving evidence to a Senate inquiry yesterday, Kennedy flagged unemployment was likely to reach 8% in September rather than the 10% expected earlier this year.

Europe: The final estimate for GDP revealed the economic activity in the euro area contracted by 3.6% in the March quarter. It is a slight

improvement from the preliminary estimate of -3.8%. On a year ago, GDP was 3.1% weaker.

Japan: Machine tool orders fell 52.8% in the year to May, after an annual decline of 48.3% in April. May's drop is the steepest since 2009 and is evidence of the deep impact COVID-19 is having on Japanese factory production. The data suggests capital spending in Japan will weak sharply.

New Zealand: Business confidence lifted in June to -33.0 from -41.8 in May and -66.6 in April, as coronavirus restrictions continued to ease. Businesses remain pessimistic, but a full lifting of COVID-19-related restrictions (except for border restrictions), should continue to restore sentiment and economic activity.

United States: The small business optimism index rose to 94.4 in May, from 90.9 in April, according to the National Federation of Independent Business (NFIB) survey. It is the index's biggest jump since 2017 and suggests small businesses in the US are feeling more optimistic. The jump was also bigger than anticipated by consensus expectations, although still below the pre-COVID-19 level of 104.5 reached in February.

There remain some fears about the outlook; the survey's uncertainty index jumped 7 points to 82.0, but expected conditions in the next six months also ticked up 5 points to a net 34%.

In other data published overnight, job openings fell 965k to 5.05 million on the last business day of April. In the month of April, hires declined to 3.5 million, which is a record low for the series.

The Federal Open Market Committee (FOMC) meet tonight. The FOMC is likely to retain a dovish outlook, but we are not expecting any significant policy changes to be announced. The FOMC will also publish their employment and growth targets for the first time since the COVID-19 outbreak.

George Floyd's life was celebrated at a Houston funeral overnight. His death on May 25 has been followed by protests across the world against racism. The funeral came a day after a large public memorial.

Today's key data and events:

JN Machinery Orders Apr exp -7.0% prev -0.4% (9.50am)
AU WBC-MI Consumer Confidence Jun prev 88.1 (10.30am)
AU Housing Finance Apr (11.:30am)
– Value of Total exp -10.0% prev 0.2%
– Value of Investor exp -10.0% prev -2.5%
– Value of Owner Occupiers exp -10.0% prev 1.2%
CH PPI May y/y exp -3.3% prev -3.1% (11.30am)
CH CPI May y/y exp 2.7% prev 3.3% (11.30am)
US CPI May exp -0.1% prev -0.8% (10.30pm)
US FOMC Policy Meeting exp 0-0.25% prev 0-0.25% (4am)

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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