

Morning Report

Friday, 12 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,960.6	-3.1%	Last		Overnight Chg			Australia		
US Dow Jones	25,128.2	-6.9%	10 yr bond	99.12		0.03	90 day BBSW	0.10	0.00	
Japan Nikkei	22,472.9	-2.8%	3 yr bond	99.73		0.00	2 year bond	0.27	0.00	
China Shanghai	3,061.7	-0.8%	3 mth bill rate	99.83		-0.01	3 year bond	0.25	0.00	
German DAX	11,970.3	-4.5%	SPI 200	5,775.0		-181	3 year swap	0.27	-0.01	
UK FTSE100	6,076.7	-4.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	-0.04
Commodities (close & change)*			TWI	60.9	-	-	60.3	United States		
CRB Index	134.9	-4.3	AUD/USD	0.6996	0.7004	0.6840	0.6844	3-month T Bill	0.16	-0.01
Gold	1,727.7	-11.0	AUD/JPY	74.94	75.01	73.07	73.10	2 year bond	0.20	0.03
Copper	5,742.5	-144.8	AUD/GBP	0.5488	0.5492	0.5430	0.5433	10 year bond	0.67	-0.06
Oil (WTI)	36.1	-0.2	AUD/NZD	1.0711	1.0712	1.0636	1.0656	Other (10 year yields)		
Coal (thermal)	52.4	-0.8	AUD/EUR	0.6149	0.6154	0.6039	0.6060	Germany	-0.41	-0.08
Coal (coking)	114.0	1.0	AUD/CNH	4.9350	4.9407	4.8423	4.8444	Japan	0.01	-0.01
Iron Ore	100.4	-0.1	USD Index	96.1	96.8	96.0	96.7	UK	0.20	-0.07

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 8:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Risk sentiment deteriorated overnight, as COVID-19 cases started rising again in some parts of the US and markets renewed their worries about the economic outlook. These worries were enhanced by the US Federal Reserve's gloomy economic projections released in the previous session. The fall in appetites for risk were reflected in hefty falls in US share markets. Key US share bourses recorded their biggest falls since March when panic around the pandemic was very high.

The VIX index, which is a measure of volatility, shot up 13.2 points to 40.7, which is its highest level in 7 weeks (since April 23) and suggests wild swings in asset markets are likely to continue in the short term.

Share Markets: US share markets posted large falls, as investors renewed their worries about the economic outlook and pandemic. Global share markets had run up fast and hard over the past week and on Monday and were due for a correction, given the underlying economic fundamentals. This correction is continuing. The Dow Jones fell by 1,862 points (or -8.6%) and the S&P 500 index fell by 188 points (or -5.9%). These falls in points and daily percentage change terms were the largest since March 16 when panic surrounding the pandemic was very elevated.

Interest Rates: Safe-haven demand pushed up bond prices, but at the longer end of the US bond curve.

The US 2-year bond yield rose 3 basis points while the 10-year bond yield fell 6 basis points.

Foreign Exchange: The US dollar index strengthened against the major currencies overnight; the exception was the traditional safe-haven currencies of the Swiss franc and Japanese yen. The Australian dollar corrected lower overnight, falling from an overnight high of 0.6964 to an overnight low 0.6825. The AUD/USD remains under selling pressure with risk sentiment weaker. A further correction and some consolidation in the AUD/USD exchange rate is likely in the near term. However, over the next few weeks and months, we think the AUD can resume its push higher and try to break above 0.7000 again. Indeed, the AUD's recent move lower have been pretty modest given the size of the spike in the VIX index and the size of the falls in the share market.

Commodities: Stronger demand for safe-haven assets pushed the gold price higher. Most other commodity prices fell.

COVID-19: There were 9 new infections in Australia in the past 24 hours according to the Department of Health. Queensland still plans to open its borders next week.

Australia: Consumer inflation expectations remain well anchored, edging down from an annual rate of 3.4% in May to 3.3% in June. Inflation is set to

weaken considerably, reflecting a sharp drop in demand for goods and services. Indeed, inflation is likely to turn negative over the second quarter.

United States: Initial jobless claims continued to edge lower, easing for the tenth consecutive week. Claims were at 1.5 million for the week ending June 5, down from 1.9 million in the week prior and down from a peak of 6.9 million for the week ending March 27. While the fall in claims continues to suggest improvement in the labour market, they remain at a high level suggesting a still elevated unemployment rate.

US Treasury Secretary Mnuchin said that the US shouldn't shut down the economy again even if cases in COVID-19 escalate again. Mnuchin also added that it wouldn't be necessary to re-impose restrictions because testing on COVID-19 and contact tracing was improving.

Today's key data and events:

NZ BusinessNZ Mfg PMI May prev 26.1 (8.30am)
JN Industrial Production Apr final (2.30pm)
UK Industrial Production Apr exp -15.0% prev -4.2% (4pm)
EZ Industrial Production Apr prev -11.3% (7.00pm)
US Import Price Index May exp 0.6% prev -2.6% (10.30pm)
US UoM Consumer Sentiment Jun exp 75.0 prev 72.3 (12am)

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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