

Morning Report

Monday, 13 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,919.2	-0.6%	Last		Overnight Chg			Australia		
US Dow Jones	26,075.3	1.4%	10 yr bond	99.09	-0.03			90 day BBSW	0.10	0.00
Japan Nikkei	22,290.8	-1.1%	3 yr bond	99.70	-0.01			2 year bond	0.25	0.00
China Shanghai	3,546.3	-2.0%	3 mth bill rate	99.89	0.00			3 year bond	0.25	0.00
German DAX	12,633.7	1.2%	SPI 200	5,971.0	95			3 year swap	0.19	0.00
UK FTSE100	6,095.4	0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.86	-0.04
Commodities (close & change)*			TWI	60.6	60.3			United States		
CRB Index	141.5	1.1	AUD/USD	0.6961	0.6969	0.6924	0.6954	3-month T Bill	0.12	-0.01
Gold	1,798.7	-10.2	AUD/JPY	74.63	74.68	73.98	74.35	2 year bond	0.15	0.00
Copper	6,418.1	117.2	AUD/GBP	0.5522	0.5525	0.5491	0.5506	10 year bond	0.64	0.03
Oil (WTI)	40.6	0.9	AUD/NZD	1.0597	1.0601	1.0566	1.0581	Other (10 year yields)		
Coal (thermal)	54.0	-0.5	AUD/EUR	0.6168	0.6170	0.6138	0.6151	Germany	-0.47	0.00
Coal (coking)	115.9	0.4	AUD/CNH	4.8709	4.8797	4.8552	4.8740	Japan	0.03	0.00
Iron Ore	103.0	0.3	USD Index	96.8	97.0	96.4	96.7	UK	0.16	0.00

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Relatively light economic news flow on Friday left investors focussing most of their attention on COVID-19 developments. Positive news about a potential treatment outweighed rising infections in the US. Stocks edged higher while crude oil and longer-dated US treasury yields increased.

Share Markets: US stocks capped a volatile week in the green on Friday. The S&P 500 rose 1.1% and the Dow Jones increased 1.4%. Atypically for equity markets since the onset of the pandemic, tech shares underperformed. The S&P 500 has risen for 3 of the past 5 sessions and was up 1.8% over last week. Speculation over the spread of COVID-19 and its impact on economic growth have been the main drivers of volatility.

Australian stocks had a more difficult week than their US counterparts. The ASX 200 fell 0.6% on Friday and ended the week down 2.3%. Local shares are set for a positive open later this morning on the positive lead from Wall Street.

Interest Rates: US 10-year treasury yields started the session lower but embarked on a steady march upwards as sentiment turned positive on the back of hopes of a COVID-19 treatment. The 10-year US treasury yield closed 3 basis points higher at 0.64%. The rest of the US curve was broadly unchanged; the 2-year bond yield remained at 0.15% while the

3-month treasury bill yield fell by 1 basis point to 0.12%.

The Australian yield curve was little changed on Friday, barring a 4-basis point drop in the 10-year bond yield to 0.86%. The yield on the 3-year bond remains anchored within the Reserve Bank's target range at 0.25% and the 90-day bank bill swap rate was unchanged at 0.10%.

Foreign Exchange: The US dollar weakened slightly over the course of Friday's session as risk sentiment improved. The US dollar index closed at 96.7 at the end of Friday's session.

The Australian dollar was rangebound on Friday, trading sideways between US\$0.6924 and US\$0.6969. It is currently at US\$0.6954 this morning.

Commodities: WTI crude oil futures rose US\$0.9 per barrel to US\$40.6. Data from oil services company Baker Hughes showed that the US oil rig count fell to the lowest since 2009. Meanwhile, confusion reigned in Libya's oil market. Just one day after the state energy company said that output at the Sharara field (which produces up to 35,000 barrels per day) was set to resume, military commander Khalifa Haftar said the blockade of the country's ports would continue.

COVID-19: World COVID-19 cases increased 220k to 12.7 million on Sunday, according to data compiled

by Bloomberg. Concerns remain over hotspots in the US, including record daily case counts in South Carolina and Texas over the weekend.

News reports suggest that the UK is set to introduce regulations to force residents to wear masks in shops.

Australia recorded 279 new cases in the 24 hours to 9pm Sunday, according to the Department of Health. Victoria accounted for 273 of the new cases. There are now 1,007 active cases in the State, including 562 where the source of the infection is unknown.

New South Wales added 5 new cases, with 4 linked to an emerging cluster at the Crossroads Hotel in Casula, in Sydney's southwest. There have now been 9 cases linked to the pub.

To ease the burden on State hotel quarantine systems, the National Cabinet has agreed to cut the number of Australian citizens and residents allowed back into the country. Under the new arrangement, just over 4,000 Australians are permitted to return home each week, down from approximately 7,000 per week previously. In addition, returning travellers will be required to cover the cost of their own mandatory quarantine. The changes are in effect as of today.

Drug maker Gilead announced that its experimental COVID-19 treatment, Remdesivir, has reduced the level of deaths in hospitalised patients by 62%. The results have not yet been peer-reviewed.

Elsewhere, the partnership between BioNTech and Pfizer is set to produce a vaccine with an application for regulatory approval by the end of the year, according to CEO Dr. Ugur Sahin. The company says it has the potential to ramp up production to several hundred million doses.

Australia: The Victorian government unveiled a \$534 million support package for businesses on Friday. The package is targeted at businesses in metropolitan Melbourne and the Mitchell Shire, which were returned to lockdown last week.

Cash grants of \$5,000 will be made available to eligible businesses, effectively extending the Business Support Fund grants provided previously. The announcement also included \$30 million for hospitality businesses and \$20 million for small businesses in Melbourne's CBD, although there were no further details on how these funds would be deployed. Outside of the areas directly affected by the new movement restrictions, \$40 million is being provided to boost regional tourism

businesses.

In addition, Victorian treasurer Tim Pallas announced that the payroll tax deferral scheme was being extended. Eligible companies with payrolls less than \$10 million will now be able to defer their payroll tax liabilities to the first half of the 2020/21 financial year.

China: There was another substantial increase in credit extended to the economy in June, suggesting that policymakers remain committed to supporting economic growth. Aggregate financing rose to 3.43 trillion yuan in June from 3.19 trillion yuan in May. There were 1.81 million yuan in new loans, up from 1.48 trillion yuan in May.

Europe: There was a faster-than-expected bounce back in industrial production in Italy as factories gradually reopened after a prolonged shut down. Industrial production rose 42.1% over the month in May after plunging 20.5% in April. The market was expecting a 24.0% increase. Despite the large gain over the month, the level of output remains down by 20.3% on a year ago.

New Zealand: Credit card spending surged another 16.3% in June following a 78.9% increase in May. Household spending appears to be recovering well after lockdown measures have been lifted. On a year ago, spending was up 8%. The recent strength may reflect some pent-up demand after the lockdown which may not be sustained. An end to government support and a rise in unemployment are headwinds for the outlook.

United States: Producer prices fell 0.2% in June following a 0.4% increase in May. Food prices plunged 5.2% while energy prices bounced back by 7.7%. Excluding food and energy, prices registered a 0.3% decline following a 0.1% fall in May.

Demand across the US economy has fallen sharply following the onset of the COVID-19 pandemic, and the impact is beginning to reveal itself in prices.

Today's key data and events:

JN Tertiary Industry Index May exp -4.0% prev -6.0%
(2:30pm)

UK BoE Governor Bailey Speaks on Libor (1:30am)

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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