

Wednesday, 13 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,403.0	-1.1%			Last	Overnight Chg		Australia		
US Dow Jones	23,764.8	-1.9%	10 yr bond	99.07			0.02	90 day BBSW	0.09	-0.01
Japan Nikkei	20,366.5	-0.1%	3 yr bond	99.77			0.00	2 year bond	0.23	0.01
China Shanghai	3,031.0	-0.1%	3 mth bill rate	99.86			0.00	3 year bond	0.23	0.00
German DAX	10,819.5	-0.1%	SPI 200	5,320.0			-68	3 year swap	0.22	0.00
UK FTSE100	5,994.8	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.96	-0.01
Commodities (close & change)*			TWI	57.7	-	-	57.3	United States		
CRB Index	122.6	0.0	AUD/USD	0.6490	0.6536	0.6432	0.6477	3-month T Bill	0.12	-0.01
Gold	1,702.7	4.8	AUD/JPY	69.86	70.16	69.14	69.43	2 year bond	0.16	-0.02
Copper	5,231.0	2.3	AUD/GBP	0.5262	0.5296	0.5228	0.5279	10 year bond	0.67	-0.04
Oil (WTI)	25.3	-0.5	AUD/NZD	1.0674	1.0681	1.0617	1.0646	Other (10 year yields)		
Coal (thermal)	54.2	0.8	AUD/EUR	0.6006	0.6021	0.5962	0.5970	Germany	-0.51	0.01
Coal (coking)	115.0	0.0	AUD/CNH	4.6127	4.6348	4.5742	4.6032	Japan	0.00	-0.01
Iron Ore	87.3	2.0	USD Index	100.2	100.4	99.7	100.0	UK	0.25	-0.02

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: Worries about a second wave of infections hit home for investors, after US infectious diseases expert Fauci warned of unnecessary deaths and a setback to economic recovery if the economy were opened prematurely. The risk averse mood sent shares and bond yields lower. Markets are awaiting a speech from Federal Reserve Chair Powell tonight.

Share Markets: Stocks in Europe were mixed, but US shares weakened as risk aversion set in. Losses accelerated later in the session – the Dow fell 1.9% and the S&P500 dropped 2.1%.

Interest Rates: Yields on US treasuries fell, in line with weaker market sentiment. The US 10-year yield dropped 5 basis points to 0.67%. US 2-year yields fell 2 basis points to 0.16%.

Market pricing has begun to imply a chance of Fed official interest rates turning negative, although Fed Chair Powell mentioned earlier in the year that negative rates would unlikely help the economy.

Foreign Exchange: The US dollar index breached 100 yesterday, before paring gains later on. The range bound session might reflect caution ahead of a speech from Federal Reserve Chair Powell tonight. The risk aversion which was apparent in other asset markets had a muted impact on the AUD. It slipped to a low of US\$0.6432 before settling at US\$0.6473.

Commodities: Oil prices were mixed. OPEC looked

to extend production cuts. Saudi Arabia deepened its output cut over June. However, the US Energy Information Administration said that US oil demand was set to decline by 2.2 million barrels per day.

COVID-19: Global cases stood at 4.28 million, according to Bloomberg.

In Australia, the Department of Health has reported 18 new cases over the 24 hours to 3pm yesterday, taking total cases to 6964.

Australia: Business sentiment improved in April, but remained at recessionary levels. The NAB business confidence index rose from a record low in March, lifting from -66 to -46 in April. However, April's reading was the second lowest on record, indicating deep pessimism among businesses.

The survey suggested actual activity weakened in the month, reflecting the full impact of social distancing restrictions. The conditions index deteriorated from -22 in March to -34 in April, a new series low with the monthly survey beginning in 1997.

Unsurprisingly, conditions were weakest in recreational & personal services, which have been directly impacted by the restrictions. However, there were also very weak conditions for wholesale, manufacturing and construction.

Both confidence and conditions are at levels indicating a very deep contraction in economic

activity. A plan to gradually lift restrictions suggests that the worst may be over, but we are a long way from restoring levels of activity to where they were before the crisis.

Separate data released showed that short-term visitor arrivals fell 51.9% between February and March, the biggest monthly fall on record. Short-term departures also fell sharply, and were down 64.9% compared with March last year.

The number of arrivals in Australia travelling on a student visa decreased by an annual rate of 16% to 40,700 in March.

The data confirms that the important services exports industries of education and tourism are suffering in the current environment. Migration inflows are likely to materially weaken over the coming months.

China: Consumer and producer price pressures were weak in April, highlighting spare capacity in the economy. Producer prices fell 3.1% compared with a year ago in April, accelerating the decline from 1.5% in March. Consumer prices rose 3.3%, down from 4.3% in March.

Slower food price inflation drove down the CPI. Food prices rose 14.8% over the year compared with an 18.3% increase in the previous month. A surge in pork prices due to the swine flu had been placing upward pressure on food prices. The combination of fading supply shocks to food prices and weak aggregate demand are likely to result in a continued slowdown in inflation over the coming months.

Yesterday, China announced an import ban on four Australian red meat abattoirs. China has said that it was due to violation of inspection and quarantine requirements. However, the ban also follows a recent escalation in tensions.

United States: The steep falls in the oil price and drop off in demand impacted negatively on consumer prices. CPI fell 0.8% in April, in line with the median estimate. Core prices, which exclude food and energy were also down, falling 0.4% in the month, and suggest underlying price weakness.

Both annual rates of inflation weakened considerably – the headline rate eased from 1.5% to 0.3% and core inflation slowed from 2.1% to 1.4%. The annual rate of core inflation was the weakest since 2011.

US infectious diseases expert Fauci told the US Senate that a premature opening of the economy would “not only lead to some suffering and death

that could be avoided, but could even set you back on the road to try to get economic recovery”. Fauci said that he thought the US was “going in the right direction, but the right direction does not mean we have by any means total control of this outbreak”.

Philadelphia Fed President Harker has warned of an uneven recovery in the US economy from the coronavirus. Harker gave two possible scenarios. In the best outcome, the economy would reopen in June, and the technology available would prevent a second wave of infections. In a more pessimistic scenario, the economy would open up too quickly and there is a second wave of infections. Harker said that it would be “a health catastrophe, but it would reverse the recovery as well”. Harker also noted that the “second quarter data would be brutally painful”.

Today's key data and events:

AU WBC-MI Consumer Confidence May prev 75.6 (10:30am)

AU Wage Price Index Q1 exp 0.5% prev 0.5% (11:30am)

NZ RBNZ Official Cash Rate exp 0.25% prev 0.25% (12pm)

UK GDP Mar m/m exp -7.9% prev -0.1% (4pm)

UK GDP Q1 P exp -2.6% prev 0.0% (4pm)

UK Industrial Production Mar exp -5.6% prev 0.1% (4pm)

US PPI Final Demand Apr exp -0.5% prev -0.2% (10:30pm)

US Fed Chair Powell Speaks (11pm)

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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