# Morning Report

Wednesday, 15 April 2020

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| S&P/ASX 200 | 5,488.1 | closed | | | **Last** | **Overnight Chg** | | **Australia** | | |
| US Dow Jones | 23,949.8 | 2.4% | 10 year bond | | 99.08 | 0.00 | | 90 day BBSW | 0.18 | -0.03 |
| Japan Nikkei | 19,638.8 | 3.1% | 3 year bond | | 99.73 | 0.00 | | 2 year bond | 0.23 | 0.00 |
| China Shanghai | 2,963.0 | 1.6% | 3 month bill rate | | 99.75 | 0.00 | | 3 year bond | 0.26 | 0.00 |
| German DAX | 10,696.6 | 1.2% | SPI 200 | | 5,500.0 | 10 | | 3 year swap | 0.37 | -0.02 |
| UK FTSE100 | 5,791.3 | -0.9% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 0.93 | 0.02 |
| Commodities (close & change) | | | TWI | 55.1 | - | - | 56.6 | **United States** | | |
| CRB Index | 126.0 | -1.9 | AUD/USD | 0.6349 | 0.6445 | 0.6375 | 0.6443 | 3-month T Bill | 0.14 | -0.09 |
| Gold | 1,715.3 | 11.6 | AUD/JPY | 68.87 | 69.26 | 68.51 | 69.07 | 2 year bond | 0.22 | -0.03 |
| Copper | 5,150.0 | 142.0 | AUD/GBP | 0.5102 | 0.5124 | 0.5078 | 0.5103 | 10 year bond | 0.75 | -0.02 |
| Oil (WTI) | 20.8 | -1.6 | AUD/NZD | 1.0439 | 1.0568 | 1.0475 | 1.0549 | **Other (10 year yields)** | | |
| Coal (thermal) | 62.8 | -0.9 | AUD/EUR | 0.5809 | 0.5881 | 0.5826 | 0.5865 | Germany | -0.38 | -0.03 |
| Coal (coking) | 136.0 | 0.0 | AUD/CNH | 4.4754 | 4.5416 | 4.4978 | 4.5399 | Japan | 0.03 | 0.01 |
| Iron Ore | 84.9 | 0.7 | USD Index | 99.5 | 99.4 | 98.8 | 99.3 | UK | 0.34 | 0.04 |

*Gold, 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:** Investors appetite for risk improved overnight, reflected in the US Dow Jones and US S&P indexes rising to one-month highs. The AUD/USD exchange rate also rose to its highest in a month. Investors are encouraged by signs the pandemic's spread could be slowing.

Investors were not disheartened by news from the International Monetary Fund (IMF). The IMF said it expects the global economy to shrink by 3.0% in 2020, which will mark the steepest downturn since the Great Depression of the 1930s.

A measure of risk aversion or volatility is the VIX index. It fell 3.4 points overnight to 37.8 – its best outcome since early March.

**Share Markets:** US share markets surged, despite some shaky earnings. The lift in equities was led by rising optimism the global pandemic is levelling off. The S&P 500 index closed up 84 points (or +3.1%) at a one-month high and the Dow Jones index finished up 559 points (or +2.4%) at one-month high.

JPMorgan and Wells Fargo both posted earnings results. Both companies are bracing for bad times ahead; both lenders posted their highest loan-loss provisions in a decade, setting aside more than US$12 billion to cover defaults across the economy, but especially from credit-card borrowers and oil companies.

Yesterday, the ASX 200 index added 111 points (or +1.9%) and closed at its highest level since March 13.

**Interest Rates:** The US 2-year yield fell 3 basis points and followed a downward trend during most of the trading session overnight. The US 10-year yield moved lower through much of the session, but late in the session pushed higher; at the close, the 10-year yield was 2 basis points weaker.

**Foreign Exchange:** The AUD/USD exchange rate retained its upward momentum in overnight trade, rising from a low of 0.6380 to a one-month high of 0.6445. Next resistance is at 0.6515-0.6550 and the AUD/USD appears set to try and test it in the short term, underpinned by improved risk appetites among investors. Investors are betting that some sort of economic recovery is coming into view; these bets are fragile. The push high by AUD/USD was helped by a weaker USD, as the US remains at the epicentre for the virus outbreak now.

**Commodities:** Oil lost ground, despite news of the biggest cut in history to global oil production over the Easter weekend. Other commodities were generally firmer.

**COVID-19:** The number of worldwide cases rose to 1.99 million overnight with deaths rising to 125,919. The US remains the country with the highest number of cases (at 610,234), followed by Spain (172,541) and Italy (162,488).

The number of cases in Australia rose by 61 in the past 24 hours to 6,400; the number of deaths is 61.

**Australia:** Business confidence plunged to the lowest level on record in March, as firms grappled with the outbreak of COVID-19 and the uncertainty attached to the outlook. The survey was taken March 25 to April 1.

The NAB business survey showed business confidence plunging 64 points to -66 in March. This reading is well below the outcome in the GFC (-30.3), the 2001 downturn (-14.9) and the 1990s recession (-23.7).

The business conditions index fell from 0 to -21. This outcome is below that of the GFC's of -16.6, but is not yet below the result in the early 1990s recession of -38.8.

The sub-components of the conditions index revealed acute weakness across the board. All sub-components were at their record lows in March. Trading conditions fell 23 points to -19 and profitability fell 22 points to -27. Employment plunged 21 points to -20. Forward orders point to a weak outlook, falling 25 points to -29 in March, the 15th negative outturn in 17 months.

The scale of the fall across both the current and forward-looking components indicates that businesses are bracing for a prolonged downturn.

**China:** Trade figures for March surprised consensus to the upside. Exports fell 6.6% compared with a year earlier in March, less than the 17.2% fall registered in the combined January-February period and the market consensus of a 13.9% drop. Meanwhile, imports fell 0.9% compared with a year earlier, better than the 9.8% fall expected by the consensus.

The better-than-expected declines for March show that China's economy is slowly returning to capacity. However, demand for Chinese exports is likely to remain subdued in the coming months as the world grapples with the economic fallout from COVID-19.

The trade balance increased to a surplus of US$19.9 billion, reversing a deficit of US$7.1 billion in the first two months of the year.

**United Kingdom:** The UK's Office of Budget Responsibility published a "Coronavirus Reference Scenario" in which GDP contracts 13% in 2020. They also published a worse scenario based on a 3-month lockdown where GDP contracts 35% and a 3-month-partial-relaxation scenario where GDP contracts 17.5%, before returning to "normal activity" in Q4.

**United States:** St Louis Federal Reserve President, James Bullard, said overnight he is confident the US economy can rebound strongly in the second half of the year, provided the government and businesses respond to the pandemic with mass testing.

Chicago's Federal Reserve President, Charles Evans, was more cautious, saying growth can begin to recover, the virus allowing.

US President Donald Trump said he will make some "important announcements" in the next few days regarding state guidelines on reopening the US economy.

Separately, National Institute of Allergy and Infectious Diseases Director Anthony Fauci said that a May 1 target to reopen is "a bit overly optimistic" for many areas of the US.

In terms of data, both export and import prices fell in March, by 1.6% and 2.3%, respectively. In annual terms, import prices are 4.1% lower and export prices are 3.6% weaker.

**World:** The IMF issued its latest World Economic Outlook, entitled "The Great Lockdown: Worst Economic Downturn Since the Great Depression".

The IMF expects the global economy to shrink by 3.0% in 2020, which will mark the steepest downturn since the Great Depression of the 1930s. The IMF is predicting a partial rebound in 2021 of 5.8% growth.

The IMF's forecasts assume that outbreaks of COVID-19 will peak in most countries during the second quarter of this year and fade in the second half of this year. A longer pandemic that lasts through the third quarter could cause a further 3% contraction in 2020 and a slower recovery in 2021 due to the "scarring" effects of bankruptcies and prolonged unemployment.

The IMF said of the forecasts that they are marked by "extreme uncertainty" and that outcomes could be far worse, depending on the course of the pandemic.

The last contraction recorded by the world economy was in 2009 of 0.7%; at the time, it was the worst downturn since the 1930s.

Advanced economies are expected to bear the brunt of the recession in the world economy. The IMF expects the US economy to contract by 5.9% this year, Eurozone to contract by 7.5% with Italy down 9.1%, Spain down 8.0%, Germany down 7.0% and France down 7.2%.

In China, growth of 1.2% is expected this year. And in Australia, a contraction of 6.7% this year is forecast.

**Today's key data and events:**

NZ Food Prices Mar prev 0.0% (8:45am)
AU WBC-MI Consumer Confidence Apr prev 91.9 (10:30am)
US Retail Sales Mar A exp -8.0% prev -0.5% (10:30pm)
US Empire Mfg PMI Apr exp -35.0 prev -21.5 (10:30pm)
US Industrial Output Mar exp -4.0% prev 0.6% (11:15pm)
US Capacity Utilisation Mar exp 74% prev 77% (11:15pm)
US NAHB Housing Index Apr exp 55 prev 72 (12am)
US Federal Reserve Beige Book (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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