

Morning Report

Wednesday, 15 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,941.1	-0.6%			Last	Overnight Chg		Australia		
US Dow Jones	26,642.6	2.1%	10 yr bond	99.08		0.01		90 day BBSW	0.10	0.00
Japan Nikkei	22,587.0	-0.9%	3 yr bond	99.69		0.00		2 year bond	0.26	0.01
China Shanghai	3,579.2	-0.8%	3 mth bill rate	99.87		-0.01		3 year bond	0.28	0.01
German DAX	12,697.4	-0.8%	SPI 200	5,943.0		30		3 year swap	0.22	0.01
UK FTSE100	6,179.8	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.91	0.01
Commodities (close & change)*			TWI	60.6	-	-	60.4	United States		
CRB Index	140.0	-0.7	AUD/USD	0.6942	0.6978	0.6921	0.6975	3-month T Bill	0.13	0.00
Gold	1,802.8	4.1	AUD/JPY	74.48	74.82	74.25	74.81	2 year bond	0.16	0.00
Copper	6,497.5	-78.5	AUD/GBP	0.5529	0.5563	0.5522	0.5556	10 year bond	0.62	0.00
Oil (WTI)	40.5	0.4	AUD/NZD	1.0612	1.0687	1.0610	1.0679	Other (10 year yields)		
Coal (thermal)	55.4	0.9	AUD/EUR	0.6119	0.6129	0.6097	0.6120	Germany	-0.45	-0.03
Coal (coking)	113.1	-2.8	AUD/CNH	4.8614	4.8921	4.8554	4.8907	Japan	0.03	-0.01
Iron Ore	109.2	1.3	USD Index	96.6	96.7	96.2	96.2	UK	0.15	-0.04

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 7:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: US share markets closed higher, the US dollar fell to a one-month low and bond yields were little changed. Remarks from US Federal Reserve officials warned of downside risks to the outlook. Earnings reports from JPMorgan, Citi and Wells Fargo were mixed, but all 3 banks announced they had set aside almost US\$28 billion for bad loans in the second quarter of 2020 – the largest amount since late 2008.

Share Markets: The broader US share market bourse swung between gains and losses overnight, as investors weighed earnings season and the economic hit of rising virus cases. At the close, the key bourses finished in positive territory. The S&P 500 index was 42 points higher (or +1.3%) and the Dow Jones was up 557 points (or +2.1%).

Bank earnings reports revealed JP Morgan and Citigroup slightly beat estimates on the back of strong trading performances, but Wells Fargo disappointed with its first quarterly loss since 2008.

Yesterday, the ASX 200 index ended 36 points weaker (or -0.6%).

Interest Rates: The US 2-year treasury yield ranged between 0.15% and 0.16% and the 10-year yield ranged from 0.63% to 0.60%. Both yields finished unchanged from the previous session.

Foreign Exchange: The USD index weakened overnight and struck a one-month low of 96.2

(lowest since June 11). The USD sold odd after dovish comments from Federal Reserve Governor Lael Brainard. The EUR/USD climbed to its highest level in a month of 1.1409, but the upward momentum could stall with this level representing key resistance.

The Australian dollar stuck to a narrow range, ahead of key jobs data out tomorrow. Consensus expects a gain in jobs for June, but we see a risk of another fall. The AUD/USD overnight stuck to 0.6921-0.6978 and in the past 7 days has stayed in an incredibly tight range of 0.6921-0.7001.

Commodities: Oil prices rose, as initial signs that OPEC members intend to comply with promises to curtail production eclipsed fears that a resurgence in coronavirus cases would send demand back to the worst days of the pandemic. Saudi Arabia commended Iraq for implementing almost all its pledged oil-production cuts. Nigeria told the kingdom it was committed to hitting its target.

COVID-19: Australia crossed over the 10,000 mark yesterday with 10,251 confirmed cases of the infections since the start of the outbreak in Australia in January. There were 284 new infections recorded yesterday with the bulk of those infections occurring in Victoria.

Victoria recorded 270 new cases yesterday, taking the number of active cases to 1,803. There were a

further two deaths. Victoria's Chief Health Officer said the state has not "turned the corner yet" in its battle, and that further measures could not be rule out.

Two new cases have been linked to the Crossroads Hotel in South Western Sydney, taking the total of the NSW outbreak to 30. NSW's Premier last night said that "we can't keep shutting and reopening", suggesting the NSW Premier is reluctant to impose a lockdown from the recent rise in infections.

In the US, at least 38 states are experiencing rising confirmed case counts. Three US states – Alabama, Florida and North Carolina – reported record daily increases in COVID-19 deaths on Tuesday.

India, which has the third most cases after the US and Brazil, was rapidly nearing 1 million cases with a jump of more than 28,000 yesterday.

The UK overnight announced it will be mandatory for people in England to wear masks when visiting retailers. Meanwhile, France's President said masks will be required in all indoor and outdoor spaces from August 1.

Australia: Business confidence and conditions improved further in June, as the nation emerged from COVID-19 restrictions earlier in the year. The survey was conducted over June 24-30, before the renewed lockdowns in metropolitan Melbourne and the Mitchell Shire. The next survey is likely to show a deterioration in confidence and conditions.

Confidence lifted for the third consecutive month to +1.5 in June (from -20 in May), the first positive reading since January. Conditions improved for the second straight month to -7.5 (from -20 in May), the best result since February 2020. Despite the improvements, both confidence and conditions remain below their long-run averages (+5 for both indices), suggesting some caution was persisting among businesses.

The latest weekly Roy Morgan survey of consumer sentiment revealed consumers became more pessimistic in the week to July 12. Consumer confidence fell 0.5% to 91.6. It is the third consecutive weekly decline and the level is the lowest since May 10.

According to weekly payrolls data, jobs declined by 0.8% over the fortnight to June 27, the first fall since the two weeks to April 25, when sweeping lockdowns were still in place. On a monthly basis, jobs rose 0.5% to June 27, down from growth of 2.0% in the four weeks to May 30. The soft outturn for payrolls in the final fortnight of June serves as a stark reminder that it will take a long time for the

labour market to return to pre-crisis levels.

China: China's trade surplus narrowed to US\$46.2 billion in June, from US\$62.9 billion in May. The narrowing was sparked by an improvement in imports, reflecting firmer domestic demand. Imports jumped 2.7% on a year ago, which was the first growth outcome since December of 2019. Meanwhile, exports rose by 0.5% over the 12 months to June.

Europe: Industrial production in the euro zone economy jumped 12.4% in May, after plunging by 18.2% in April. The current level of output is still 20.9% below production levels recorded in May last year. By country, Italy experienced the strongest rebound, followed by France and Spain. The rapid recovery is likely to fade over coming months.

ZEW's survey of German investor sentiment slipped to 59.3 points in July, from 63.4 points in June. July's result was below consensus expectations that rested on a reading of 60.0.

Japan: Industrial production was revised down slightly in May to an 8.9% decline, from a drop of 8.4% previously. The data continues to highlight struggles within the factory sector while world demand remains sluggish.

New Zealand: House sales rose 7.1% in June, after collapsing by 46.6% in May, according to the latest data from the Real Estate Institute of NZ. The partial recovery in June reflects the easing of level 4 restrictions. Concerns remain for the housing market outlook.

United Kingdom: The UK government banned Huawei from its 5G network. The move will cost its operators as much as £2 billion to implement, and will delay the roll out of 5G networks by between two and three years. The decision also threatens to fuel a growing row with China.

United States: JPMorgan, Citi and Wells Fargo set aside almost US\$28 billion for bad loans in the second quarter of 2020, a mark only surpassed by Q4 of 2008. The total was higher than expected by markets. All three lenders also said the economic outlook had worsened.

Federal Reserve Governor Lael Brainard overnight warned that the US economy appears to be slowing after an initial burst of recovery and called for the Federal Reserve to take aggressive steps to bolster growth. Brainard said that hiring and consumer spending bounced back more strongly than expected in May and June, but that mostly reflected a rapid reopening of the economy. Further, that the reopening has since caused ongoing spikes in viral

infections that could reverse much of that progress. Brainard added that “rolling flare-ups or a broad second wave of the virus may lead to widespread social distancing – whether mandatory or voluntary – which could weigh on the pace of the recovery and could even presage a second dip in activity”.

Brainard called for the Federal Reserve to take aggressive steps to bolster growth. Brainard suggested the Fed could indicate that it will refrain from lifting its benchmark short-term interest rate from its current level of nearly zero until inflation returned to the central bank’s 2% target. Brainard also said Fed policymakers may want to consider targeting near-zero interest rates on short- and medium-term bonds, a policy that the Fed has not used before and is called yield-curve control. Still, Brainard said Fed officials would need to carry out more analysis before adopting such a policy.

Federal Reserve President of St Louis, James Bullard, warned that a wave of business failures owing to the pandemic could still trigger a financial crisis, especially without more granular risk management on the part of health policy. Bullard added that it is prudent to keep lending facilities in place, despite an improvement in liquidity in financial markets. Bullard warned in any crisis there can be “twists and turns” and “there can be another shoe to drop”. The Fed has faced some criticism that it has gone too far in its efforts to shore up financial markets. The Fed has now 2 facilities in place to buy corporate debt in the primary and secondary markets, including bonds that are classified as “junk”. Bullard acknowledged the schemes were controversial but said corporate debt liquidity has been sorely tested early in the crisis and the facilities served as an important backstop.

Headline consumer prices grew by 0.6% in June, after three straight monthly declines. It is also the biggest monthly gain since August of 2012. The reopening of businesses in June helped consumer prices rise in the month with rises in gasoline and food particularly firm. Annual growth of headline prices inched up to 0.6% in June, from 0.1% in May. It is the smallest annual increase since September of 2015.

Excluding food and energy prices, (core) consumer prices rose a milder 0.2% in June, after sliding 0.1% in May and falling in April and March. Annual growth of core consumer prices remained unchanged at 1.2% in May.

The US Federal Reserve prefers and tracks the core personal consumption expenditures (PCE) price

index for its 2% inflation target. The core PCE index increased 1.0% in the year to May, which was the smallest advance in nearly 9½ years. June’s core PCE price index data will be released at the end of this month.

Small business sentiment continues to show a modest rebound. The NFIB small business optimism index rose 6.6% to 100.6 in June, from 94.4 in May. The outcome beat consensus market expectations. Within the survey, one of the key positive take outs was that more firms are reporting plans to hire (16% in June vs 8% in May).

Today’s key data and events:

AU MI Consumer Confidence Jul prev 93.7 (10.30am)
 UK CPI Jun exp 0.0% prev 0.0% (4.00pm)
 US Import Price Index Jun exp 1.0% prev 1.0% (10.30pm)
 US NY Empire Mfg Index Jul exp 10.0 prev -0.2 (10.30pm)
 US Industrial Production Jun 4.4% prev 1.4% (11.15pm)
 US Federal Reserve’s Harker Speech (2am)
 US Federal Reserve's 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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