Morning Report

Friday, 15 May 2020

Equities (close & % change)		
S&P/ASX 200	5,328.7	-1.7%
US Dow Jones	23,625.3	1.6%
Japan Nikkei	19,914.8	-1.7%
China Shanghai	3,008.8	-1.0%
German DAX	10,337.0	-2.0%
UK FTSE100	5,741.5	-2.8%
Commodities (close & change)*		
CRB Index	123.1	2.5
Gold	1,730.3	14.0
Copper	5,174.0	-20.3
Oil (WTI)	27.7	2.4
Coal (thermal)	55.8	0.2
Coal (coking)	114.6	2.4
Iron Ore	87.7	-0.5

Sydney Futures Exchange (close & change)				
	Last		**Overnight Chg**	
10 yr bond	99.12		0.01	
3 yr bond	99.77		0.00	
3 mth bill rate	99.87		0.00	
SPI 200	5,353.0		45	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	57.2	-	-	56.9
AUD/USD	0.6455	0.6468	0.6404	0.6460
AUD/JPY	69.11	69.40	68.55	69.29
AUD/GBP	0.5276	0.5287	0.5259	0.5284
AUD/NZD	1.0767	1.0778	1.0742	1.0769
AUD/EUR	0.5966	0.5987	0.5939	0.5980
AUD/CNH	4.5905	4.5969	4.5657	4.5941
USD Index	100.2	100.6	100.1	100.3

Interest rates (close & change)		
Australia		
90 day BBSW	0.09	0.00
2 year bond	0.25	0.02
3 year bond	0.23	0.00
3 year swap	0.20	0.00
10 year bond	0.90	-0.06
United States		
3-month T Bill	0.11	-0.01
2 year bond	0.15	-0.01
10 year bond	0.62	-0.03
Other (10 year yields)		
Germany	-0.54	-0.01
Japan	0.00	0.00
UK	0.20	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: US-China tensions continued overnight and US jobs data showed the US labour market remains in a dire state. US share markets were volatile, swinging in and out of positive territory. US bond yields finished lower.

Share Markets: US share markets ebbed between gains and losses on more ugly US economy data and US-China tensions. At the close, the Dow Jones was up 377 points (or +1.6%) and the S&P 500 index was 33 points higher (or +1.2%).

Interest Rates: The US 2-year treasury yield closed 1 basis point lower at 0.15% and the US 10-year yield closed 3 basis points weaker at 0.62%. However, the US 10-year yield had fallen to as low as 0.60% before recovering with the rebound in equities.

Federal fund futures continue to price in a small chance of the US Federal Reserve implementing negative interest rate policy.

Australian 3-year government bond yields remained anchored not far from 0.25%. Meanwhile, the Australian 10-year yield slipped from 0.90% to 0.86%, before rebounding to 0.89%.

Foreign Exchange: The AUD/USD exchange rate fell from near the 0.6465 handle to an overnight low of 0.6404 before recovering with the rebound in US equities. The AUD/USD pair is now trading back at around 0.6465 and appears to have good support above 0.6350 in the near term.

Commodities: West Texas Intermediate oil closed at a six-week high overnight amid bullish signals. The International Energy Agency (IEA) said the outlook for global markets is improving with demand a little stronger than expected and supply reined in by a brutal price crash. BP plc also said consumption has surged back this week as cars return to the roads. This comes after Saudi Aramco cut sales to the US and Europe by about half as OPEC+ embark on record output curbs.

COVID-19: The number of global infections rose to 4.51 million overnight. US still has the highest number of infections at 1.45 million, followed by Spain with 272.6k and Russia at 252.2k, according to data from Worldometer. While the number of new daily cases in much of Europe and the US are rolling over, new daily cases in Russia, Brazil and India are accelerating.

Australia had 9 new cases in the past 24 hours, taking the total number of infections to 6,989, according to Worldometer. However, the number of active cases in Australia fell to 611.

Australia: The big impact of COVID-19 was revealed in yesterday's labour force survey. There were 594,000 jobs lost in April, which is the biggest monthly decline in the history of the series (which began in 1978). The fall in jobs was worse than anticipated by consensus of 575,000.

The big fall in employment led to a sharp rise in the unemployment rate from 5.2% in March to 6.2% in April. The 1 percentage point increase from March was the biggest one-month increase ever and the unemployment rate was the highest since September 2015. However, the rise in the unemployment rate was not as sharp as expected by consensus. Consensus had been expecting the unemployment rate to spike to 8.2%.

The rise in the unemployment rate was constrained by a record fall in the participation rate, from 66.0% to 63.5%. The participation rate measures the share of the labour force of the population. To be included in the labour force, one must be employed, receiving JobKeeper, unemployed but anticipating a return to work soon or unemployed but actively looking for work. The Australian Bureau of Statistics estimated 490,000 people dropped out of the labour force in April, reflected in the participation rate. These people have become discouraged to look for work and/or are waiting for a better time to actively look for work. If the participation rate had remained unchanged in April, we estimate the unemployment rate would have jumped to 9.7%.

Therefore, while the rise in the unemployment rate was significant, it greatly underestimates the amount of spare capacity in the labour market. Indeed, the underemployment rate rose to a record high of 13.7% in April, from 8.8% in March. Moreover, hours worked fell by 9.2% over the month, the largest on record.

The Federal Government's JobKeeper payment has also helped play a part in keeping the unemployment rate lower than it otherwise would be. People who are paid through the JobKeeper wage subsidy would be classified as employed, regardless of whether they were stood down and worked no hours. Treasurer Josh Frydenberg said yesterday that 860,000 businesses employing 6 million Australians were on the JobKeeper program.

The employment-to-population ratio also highlights the significant deterioration in labour market conditions. This ratio fell from 62.5% in March to 59.6% in April, and is the lowest since July 2003.

The sharp decline in employment over April was in both full-time and part-time jobs. Full-time employment declined by 220.5k and part-time employment fell 373.8k.

There is some positive news with the containment of the outbreak in Australia and plans to re-open economic activity. Nonetheless, further weakness in employment is likely. The economy is unlikely to return to its previous level of activity any time soon and the unemployment rate is expected to lift further in coming months.

United Kingdom: Twice in consecutive days the Bank of England Governor has stressed its easing bias, but pushed back (without dismissing) on potential for a negative interest rate policy.

New Zealand: Yesterday, the New Zealand Government surprised financial markets with a greater-than-expected expansionary pre-election Budget. They added an additional $50 billion of support and recovery measures to deal with COVID-19.

The new spending that was announced is on top of the NZ$12.1 billion announced in March and is heavily weighted towards supporting and creating jobs. The Government is aiming to return the unemployment rate to its current level of 4.2% within two years.

Around $20 billion of the package remains to be allocated within the next few years, although the fiscal projections assume that the full amount will be spent.

Operating deficits will be close to 10% of GDP for each of the next three fiscal years.

United States: The Federal Reserve pressure on Congress to lift stimulus continued overnight. Fed member Kashkari said there are “going to be a lot of families that are going to need direct financial assistance" and further that a “V–shaped recovery is off the table." A central bank survey showed the pandemic is hitting poorer households the hardest, with almost 40% of those making less than US$40,000 a year reporting a job loss in March.

Data overnight showed another 2.98 million Americans filed for unemployment benefits for the week ending May 9, bringing the total number of unemployment benefit applications to 36.6 million since COVID-19 hit the US economy. The rise last week was the lowest since the middle of March, but the result was still higher than consensus expectations.

While jobless claims have retreated for 6 straight weeks from a record 6.7 million in late March, the sluggish rate of decline in initial jobless claims raises concerns that businesses are moving to deeper and more permanent reductions in their workforces.

In geopolitical developments, US President Trump said he doesn't want to talk to Chinese President Xi

Jinping right now and mused about eliminating the largest trading relationship in the world. Trump told Fox Business that he's very disappointed in Beijing, won't renegotiate the trade deal and the information on China and the virus is "not good." The US Administration is also looking at Chinese companies on the NYSE and Nasdaq that don't follow its accounting rules.

Today's key data and events:

NZ BusinessNZ Mfg PMI Apr prev 53.2 (8:30am)
JN Producer Prices Apr exp -0.8% prev -0.9% (9:50am)
CH Industrial Production Apr y/y exp 1.5% prev 1.1% (12pm)
CH Retail Sales Apr y/y exp -6.0% prev -15.8% (12pm)
CH Fixed Asset Inv. Apr YTD -4.5% prev 7.7% (12pm)
EZ German GDP Q1 Prel exp -2.3% prev 0.0% (4pm)
EZ Eurozone GDP Q1 Prel exp -3.8% prev -3.8% (7pm)
US Retail Sales Apr exp -11.9% prev -8.7% (10:30pm)
US Empire Mfg Survey May exp -60.0 prev -78.2 (10:30pm)
US Industrial Prod'n Apr exp -12.0% prev -5.4% (11:15pm)
US Capacity Utilisation Apr exp 63.8% prev 72.7% (11:15pm)
US UoM Cons. Sentiment May P exp 68.0 prev 71.8 (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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