

Morning Report

Friday, 17 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,416.3	-0.9%	Last		Overnight Chg			Australia		
US Dow Jones	23,537.7	0.1%	10 year bond	99.17		0.01		90 day BBSW	0.14	-0.01
Japan Nikkei	19,290.2	-1.3%	3 year bond	99.74		-0.01		2 year bond	0.22	-0.01
China Shanghai	2,955.4	0.3%	3 month bill rate	99.79		0.00		3 year bond	0.25	-0.02
German DAX	10,301.5	0.2%	SPI 200	5,431.0		8		3 year swap	0.33	0.00
UK FTSE100	5,628.4	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.85	-0.07
Commodities (close & change)			TWI	56.3	-	-	55.7	United States		
CRB Index	123.6	0.0	AUD/USD	0.6322	0.6337	0.6264	0.6362	3-month T Bill	0.11	-0.03
Gold	1,717.6	-0.1	AUD/JPY	67.90	68.40	67.59	68.74	2 year bond	0.21	0.01
Copper	5,098.3	-51.8	AUD/GBP	0.5047	0.5087	0.5025	0.5097	10 year bond	0.63	0.00
Oil (WTI)	19.9	0.0	AUD/NZD	1.0543	1.0615	1.0521	1.0618	Other (10 year yields)		
Coal (thermal)	61.9	-0.3	AUD/EUR	0.5795	0.5846	0.5764	0.5863	Germany	-0.47	-0.01
Coal (coking)	136.0	0.0	AUD/CNH	4.4700	4.4896	4.4392	4.4840	Japan	0.02	0.00
Iron Ore	84.5	-0.3	USD Index	99.6	100.3	99.6	100.0	UK	0.30	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: Dismal US economic data and the extension of lockdowns in the UK and New York kept investors on edge overnight, notwithstanding a rally in tech shares. Equities fluctuated between gains and losses and bond yields fell.

The UK extended its lockdown for three more weeks while New York's strict measures will be in place until at least May 15. Meanwhile, the US President Trump released guidelines on how states should begin easing their restrictions.

Share Markets: All three major US equity indices closed higher, but fluctuated between gains and losses throughout the session. The S&P 500 closed 0.6% higher. Another huge week of initial jobless claims and a plunge in US housing starts injected caution.

Gains were led by defensive stocks such as health care, consumer discretionary and technology. Shares in Amazon and Netflix hit record highs as demand for their services sky-rocketed. The NASDAQ rose 1.7%, reducing its year-to-date decline to 4.9%. The S&P 500 remains 13.4% lower so far in 2020 while the Dow Jones is 17.5% down.

The ASX 200 fell 0.9% yesterday and is down 19.0% so far in 2020.

Interest Rates: US treasury yields remained under pressure overnight as economic data remained dismal and lockdowns were extended. The 2-year

yield fell to 0.18% at one point, before rebounding to close 1 basis point higher at 0.21%. The 3-month treasury bill fell 3 basis points to 0.11%.

Australian yields fell across the curve yesterday amid a risk-off mood. The 3-year bond closed at the RBA's target of 0.25% while the 90-day bank-bill-swap rate fell 1 basis point to 0.14%. The 10-year bond fell 7 basis points to 0.85%.

Foreign Exchange: Another huge week of US initial claims supported demand for the US dollar. The US dollar index rose to 100.1, trading water before rising following the release of the dismal US economic data.

The Australian dollar ranged sideways between US\$0.6264 and US\$0.6334. It's currently at US\$0.6327.

Commodities: Gold prices edged ticked slightly lower but remain around a 7-year high reached in recent days. Gold prices fell US\$0.1 per ounce to US\$1,717.6.

WTI oil futures were flat at US\$19.9 per barrel.

COVID-19: The latest situation report from the World Health Organisation for April 16 puts the number of confirmed cases worldwide at 2 million, up 76,647 from the previous report. There have been 130,885 deaths, up 4,710 from yesterday.

Over the same period, the Department of Health

has reported 6,468 confirmed cases in Australia, up 21 from the previous day. Australia has recorded 63 deaths related to the virus.

At a press conference following the National Cabinet meeting yesterday, Prime Minister Scott Morrison said that the current lockdown measures will be reviewed in four weeks. He said that any easing of restrictions would first require further evidence of the curve flattening, more widespread and systematic testing and the ability to lockdown specific areas where community outbreak has occurred.

The UK government said it would extend its harsh lockdown by at least 3 more weeks while in New York measures have been extended until at least May 15.

Australia: Employment grew 5.9k in March, which was the weakest outcome in five months. Significant job losses are expected to show up in the next labour force survey for April. The survey period for March's data was taken in the first two weeks of March and predates the 'Stage One' social distancing restrictions effective from March 23. These restrictions required non-essential services to close, including pubs, clubs, hotels, gyms, cafes, cinemas, casinos and restaurants. The unemployment rate edged up from 5.1% in February to 5.2% in March, reflecting the soft employment outcome. Another sign of softening labour market conditions in the lead up to social distancing restrictions being implemented was the lift in the underemployment rate. The underemployment rate edged up from 8.7% to 8.8%, which is its highest in nearly three years. The Federal Government's Job Keeper package will mean that those receiving the wage subsidy will be still counted as employed, even if they are not working any hours. The package helps limit some job losses, but the scale of job losses is expected to be significant. Our central forecast is for the unemployment rate to peak at 9% later this year, but we cannot rule out the unemployment rate rising to the double digits.

Inflation expectations lifted to an annual rate of 4.6% in April from 4.0% in March. A lift is somewhat surprising given the sharp fall in fuel costs. Nonetheless, inflation is facing downward pressure from the lower oil price, which may be offset somewhat by the stronger AUD.

China: New home prices rose 0.1% in March, after a flat result in February. Annual growth was at 5.3%, the slowest since June 2018. Transactions have

been limited by social distancing measures, but some restrictions have been lifted. There has been stimulus by boosting credit and bringing down interest rates which could also support some recovery, although activity remains well below pre-lockdown levels.

United States: Initial jobless claims fell to 5.3 million, their third highest result in history. The total number of unemployment benefits claims has now risen to 22 million in the past four weeks, indicating a significant deterioration in the labour market.

Following on from the off-the-chart fall in the Empire manufacturing survey for New York yesterday, the Philadelphia Fed survey fell to -56.6 in April from +32.0 in March. There was a large decline in new orders, pointing to a dramatic reduction in the outlook for economic activity.

Separate data showed US housing starts fell 22.3% in March, the biggest monthly drop since 1984. The US housing market had been on the path to recovery before the coronavirus pandemic, spurred higher by low mortgage rates. Housing starts remained 1.4% higher on an annual basis in March.

Today's key data and events:

CH GDP Q1 y/y exp -6.0% prev 6.0% (12.00pm)

CH Industrial Production YTD y/y Mar exp -10.0% prev -13.5% (12pm)

CH Retail Sales Mar YTD y/y -12.5% exp -20.5% (12.00pm)

JN Industrial Production Feb final prev 0.4% (2.30pm)

US Leading Index Mar exp -7.1% prev 0.1% (12.00am)

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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