

Morning Report

Wednesday, 17 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,942.3	3.9%			Last	Overnight Chg		Australia		
US Dow Jones	26,290.0	2.0%	10 yr bond	99.06		0.00	90 day BBSW	0.10	0.00	
Japan Nikkei	22,582.2	4.9%	3 yr bond	99.72		0.00	2 year bond	0.27	0.00	
China Shanghai	3,073.0	1.4%	3 mth bill rate	99.84		-0.01	3 year bond	0.25	0.01	
German DAX	12,315.7	3.4%	SPI 200	5,974.0		29	3 year swap	0.26	0.00	
UK FTSE100	6,242.8	2.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	0.06
Commodities (close & change)*			TWI	59.4	-	-	60.6	United States		
CRB Index	136.3	1.5	AUD/USD	0.6919	0.6977	0.6834	0.6878	3-month T Bill	0.15	-0.01
Gold	1,726.5	1.4	AUD/JPY	74.29	75.09	73.32	73.83	2 year bond	0.20	0.01
Copper	5,712.5	21.3	AUD/GBP	0.5485	0.5510	0.5441	0.5474	10 year bond	0.75	0.03
Oil (WTI)	38.4	1.3	AUD/NZD	1.0685	1.0729	1.0656	1.0678	Other (10 year yields)		
Coal (thermal)	52.9	-0.8	AUD/EUR	0.6109	0.6155	0.6087	0.6109	Germany	-0.43	0.02
Coal (coking)	116.1	-0.2	AUD/CNH	4.8925	4.9274	4.8465	4.8714	Japan	0.02	0.01
Iron Ore	102.5	2.0	USD Index	96.7	97.3	96.4	97.0	UK	0.21	0.00

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 8:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Investor appetite for risk improved slightly overnight, helped by a spike in US retail sales and remarks from US Federal Reserve Chair Powell. However, rising cases in Beijing and some parts of the US restrained the improvement and remains a threat to the outlook.

Share Markets: US share markets rose for a third straight day, as optimism over a recovering US economy overrode concern of a resurgence in coronavirus infections. The S&P 500 index climbed 58 points or 1.9% - the biggest percentage gain in more than a week. The Dow Jones added 527 points or 2.0%.

The improvement in US share markets is likely to spur the local share market higher in trade later today. However, some profit-taking could ensue given the size of yesterday's rise. Yesterday the ASX 200 index rose 222 points or 3.9%. It was the biggest point gain since March 30 and the largest daily percentage rise since April 6.

Interest Rates: The surge in retailing and improved investor sentiment sent US bond yields higher across the bond curve. The US 2-year yield rose 1 basis point and the 10-year yield gained 3 basis points.

Foreign Exchange: The AUD was hostage to US dollar developments overnight. The USD index appreciated during European trade and the early

part of New York's session, before encountering some selling pressures. The AUD/USD mirrored these developments with the AUD falling to an overnight low of 0.6834 in early New York trade, before recovering towards the 0.6880 handle. In the near term, the AUD/USD is likely to stick to a 0.6600-0.7100 range. The risk of a second wave of infections in China is a threat to the AUD resuming its rise above 0.7100 in the short term.

Commodities: The IEA said overnight that global oil demand will take at least until 2022 to fully recover after contracting this year and next. It added the market will slip into deficit next year and stockpiles will diminish rapidly in the second half.

Most commodity prices rose overnight in line with the improvement in risk sentiment.

COVID-19: Beijing has raised its COVID-19 emergency response level from two to three after officials warned overnight that the situation in the capital was "extremely severe". It is the most serious outbreak in China since February with the city's total jumping to 106 confirmed cases since Friday. Activity is now restricted in Beijing, including travel to and from the city. China's top epidemiologist said the next three days are "critical".

Some states in the US are also recording a worsening outbreak. It includes Florida where new

cases have risen to the highest level since the pandemic began. Texas is also experiencing a surge in hospitalisations to 8.3%, which is the highest in 2 weeks.

In other news, a trial led by a team from Oxford University showed a cheap and widely available anti-inflammatory drug called dexamethasone can help save the lives of patients who are seriously ill.

Australia: The minutes of the June meeting of the Reserve Bank (RBA) showed cautious optimism among Board members. The RBA noted that “the downturn would be shallower than earlier expected”, reflecting the containment of the virus in Australia and a lifting of restrictions earlier than previously expected.

On the global economy, the RBA pointed out that rates of COVID-19 infections had declined in “many countries” and restrictions were easing. The RBA indicated a global economic recovery could continue if these trends were maintained.

The remainder of the minutes were peppered with notes of caution, particularly with regards to the speed of recovery and longer-term consequences for demand. Concerns included the potential for COVID-19 infections to escalate again, the longer-lasting damage from the loss in demand and incomes, and the risk that spending would be limited by “concerns about the virus or insufficient policy support”.

Weekly payrolls data released yesterday suggest that the pace of job losses slowed in May. The official labour force will be published tomorrow. Payrolls jobs rose 1.0% over the month of May, clawing back some of the large decline in jobs since social-distancing measures were introduced in late March. Between the weeks ending March 14 (when Australia recorded its 100th COVID-19 case) and May 30, jobs were 7.5% lower.

Unsurprisingly, the recovery in May was led by industries which suffered the most due to social-distancing measures in April. Accommodation & food services saw the highest increase by industry.

By State, the fastest recovery was recorded in South Australia (2.2%) while Victoria was the only State to record a decline in jobs over the month (-0.4%).

Losses in payrolls were also the most pronounced in the inner regions of metropolitan areas.

Meanwhile, the Australian Bureau of Statistics (ABS) measure of house prices showed that property prices rose 1.6% in the March quarter following a 3.9% increase in the December quarter of 2019. The

increase was in line with expectations and evidence from other pricing sources, which revealed that house price momentum was solid before the impact of COVID-19 materialised.

Europe: Germany’s ZEW sentiment survey posted a large increase in June, rising from 46.0 in May to 58.6. The improvement was driven by a sharp gain in expectations. The current conditions component continued to languish.

Japan: The Bank of Japan upsized its corporate lending support program yesterday, while keeping its main policy settings unchanged. It kept the policy balance rate at -0.10%. Funding provision measures were increased to a total of ¥90 billion, up from ¥50 billion previously. Its other yield-curve control measures were unchanged, including its target for the 10-year government bond of around 0%.

United Kingdom: The unemployment rate held steady at 3.9% in the 3 months to April, better than the consensus forecast of an increase to 4.7%. There was a net addition of 6k jobs over the period, beating estimates of a decline of 110k.

United States: US Federal Reserve Chairman Jerome Powell was restrained in his assessment of recent positive economic data, saying there is still “significant uncertainty” about the timing and strength of the recovery. Powell told a Senate committee that the US economy might be starting to see a period of improvement in employment, but it will likely leave the labour market “well short” of the robust levels seen just before the pandemic.

Retail sales rebounded by a record 17.7% in May as American consumers began spending and states gradually reopened their economies following the pandemic lockdowns. It was the biggest monthly gain on record, dating back to 1992. The rise followed a decline of 14.7% per cent in the previous month. It was also more than double economists’ expectations of an 8.2% increase.

Sales of clothing and accessories, electronics and appliances, sporting goods, home furniture and motor vehicles all surged last month after steep declines in April. So-called control sales, which strip out more volatile items such as food, petrol and building materials, rose 11.0%, also ahead of expectations. Despite the monthly surge, retail sales were down 6.1% from the same period a year ago.

Industrial production rose 1.4% in May, after a sharp 12.7% drop in April. The rise was weaker than consensus expectations of a 3.0% increase. Manufacturing rose 3.8% in the month.

While the easing of social-distancing restrictions has

boosted an economic recovery, weak demand, supply-chain disruptions, low oil prices and uncertainty are expected to continue to weigh on economic activity, including industrial production. The recovery will likely be two-phased: a short lived, partial snapback in output, followed by a sluggish and extended recovery.

Today's key data and events:

NZ Current Account Q1 exp 1.6b prev -2.7b (8:45am)
JN Trade Balance May exp -¥1030b prev -¥930b (9:50am)
AU Westpac Leading Index May prev -1.5% (10:30am)
UK Consumer Price Index May exp 0.0% prev -0.2% (4pm)
EZ Construction Output Apr prev -14.1% (7pm)
EZ Consumer Prices May F exp -0.1% prev -0.1% (7pm)
US Bldg Permits May exp 17.3% prev -20.8% (10:30pm)
US Housing Starts May exp 23.5% prev -30.2% (10:30pm)
US Fed Chair Powell Appears Before House Panel (2am)
US Federal Reserve's Mester Speaks (6am)

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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