Morning Report

Tuesday, 17 March 2020

Equites (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)		
S&P / ASX200	5002.0	-9.7%		**Last**		**Overnight Chg**		**Australia**		
Dow Jones	20188.5	-12.9%	10 yr bond	99.03		0.09		10 year bond	0.92	-0.17
Nikkei	17002.0	-2.5%	3 yr bond	99.57		0.09		3 year bond	0.48	-0.11
Hang Seng	23063.6	-4.0%	3 month bill	99.50		0.12		90 day BBSW	0.59	-0.03
Shanghai	2789.3	-3.4%	SPI 200	4839		-816		**United States**		
DAX	8742.3	-5.3%	FX Last 24 Hours	Open	High	Low	8:00 AM	10 year bond	0.73	-0.22
FTSE 100	5151.1	-4.0%	TWI	55.1	-	-	54.1	2 year bond	0.37	-0.12
Commodities (Close & Change)			AUD/USD	0.6140	0.6303	0.6078	0.6116	3-month T Bill	0.22	-0.06
CRB Index	132.7	-8.1	AUD/JPY	66.41	67.26	64.04	64.83	**Other (10 year yields)**		
Gold	1507.0	-22.3	AUD/GBP	0.5004	0.5084	0.4940	0.4984	Germany	-0.46	0.13
Copper	5460.0	20.0	AUD/NZD	1.0238	1.0364	1.0013	1.0111	Japan	0.01	0.01
Oil (WTI)	29.0	-2.8	AUD/EUR	0.5544	0.5637	0.5450	0.5468	UK	0.44	0.03

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg, Refinitiv.

Main Themes: Containment measures to combat the spreading coronavirus have escalated around the world. Despite central banks throwing a range of monetary stimulus, share indices tanked again. Yesterday, the RBA released a statement flagging stimulus measures to be announced on Thursday.

Share Markets: Share markets reacted negatively to the emergency stimulus from the Federal Reserve. The Dow plunged 13%, while the S&P500 lost 12%, more than offsetting Friday's gains of 9.3%, and exceeding the percentage losses on Thursday. These were the worst one-day falls since 1987.

Yesterday, the ASX 200 index plunged 537 points or 7.1% - its worst one-day performance since 1987. The ASX 200 index has now lost 31% since its 2020 high in mid February. The index is at a level last recorded in late 2016.

Interest Rates: Yields continued to fall as investors flock to safety and as central banks ramped up monetary stimulus. US 10-year yields fell another 25 basis points to 0.72%.

Australian 10-year yields fell to 0.92% yesterday, following the RBA announcement of impending action.

Foreign Exchange: Currency markets were unsurprisingly volatile. The US dollar index remains down from its peak prior to the Federal Reserve's announcement, but not far from 24 hours ago. The US dollar remains supported by the ongoing risk aversion and despite the Federal Reserve's action to slash rates yesterday. After spiking temporarily yesterday morning on the Federal Reserve's decision, the Australian dollar ground lower, weighed down by the announcement from the RBA, flagging action later this week. The downturn in risk appetite also weighed on the currency, hitting a low of 0.6079.

Commodities: US WTI oil prices slipped below US$30 a barrel for the first time since 2016. Excess supply is set to build, given the weakening global economy, combined with the ramp up in production by the Saudis and Russia. Copper prices slid to their lowest since 2016. Gold prices are also coming under downward pressure in this extreme environment, as investors scramble for cash on leveraged positions.

COVID-19: New cases continued to grow lifting 11,750, taking the total cases up to 181,310. The bulk of new cases continues to be in Europe, with over a 1000 new cases in Italy, France, Spain and Germany. France will go into a forced lockdown with residents forced to stay at home. Germany, Spain and Canada were the latest countries to have closed their borders. Bars, restaurants and clubs are closing across major capital cities, including New York, Los Angeles and Paris. On a more positive note, a trial vaccine is being tested in the US, although it will take many months before we know it would work.

Australia: Several major central banks around the world deployed further stimulus yesterday and on Friday. The RBA flagged it would join in this coordinated action. Yesterday, the RBA issued a press release that it will make further policy measures on Thursday and that it stands ready to purchase Australian government bonds to support the smooth functioning of that market.

We expect the RBA to cut the cash rate by 25 basis points this Thursday, taking the cash rate to a new record low of 0.25%, which is also the effective lower bound. The RBA may also stress low rates are here to stay for an extended time.

The RBA is also expected to reveal the details of a quantitative easing programme, which will involve purchasing Australian government bonds.

Quantitative easing (WE) usually involves a central bank targeting a specific quantity of bonds to purchase, but it isn't the only option. The RBA might instead target the price (yield) rather than the quantity of bonds.

The RBA has also said it is conducting other measures to ensure liquidity and smooth operations in financial markets. These additional operations form part of a package of liquidity measures from Australia's Council of Financial Regulators.

Central bankers and governments are doing their very best to support the economy. However, ultimately a recovery in the economic activity worldwide and in Australia requires the new rate of daily cases globally to slow down.

Slowing the rate of spread of the coronavirus requires the locking down of societies, which causes economic activity to grind to a near stand still. Businesses will concentrate on preserving cash and surviving. Investment will fall, unemployment will rise. It is hard to see a recession being avoided.

Governments and central banks have a key role to play in supporting businesses and households during the period of containment, including trying to prevent the collapse of otherwise-viable firms.

China: A large batch of data was released yesterday and it was overwhelmingly weak and also far worse than consensus expected. The data highlights that China suffered an even deeper slump than analysts feared at the start of the year, underscoring how a country-wide shutdown could impact on the economy and the fallout now facing the global economy as the virus spreads around the world.

Industrial production fell 13.5% in the January-February period compared with a year earlier. Consensus had anticipated the fall would only be 3.0%. Fixed assets ex rural investment sunk 24.5% in the January-February period compared with a year earlier compared with consensus forecasts for a decline of just 2.0%. And retail sales plunged 20.5% in the January-February period on a year ago where consensus was expecting a fall of 4.0%.

The unemployment rate rose to 6.2% in February when much of China faced a shutdown due to the virus.

Japan: The Bank of Japan (BoJ) met yesterday and expanded it its QE programme. It said it would buy more assets, including exchange-traded funds (ETFs) and corporate bonds. The BoJ also said it would offer a new zero-interest rate loan program to ensure companies had the financing they needed, to help prop up sentiment and maintain stability in markets.

BoJ Governor Kuroda after the meeting added the BOJ was watching the impact of the virus closely and wouldn't hesitate to ease more if needed, including cutting its negative interest rate.

In terms of data, core machine orders rose 2.9% in January, but it follows a drop of 11.9% in December. The rise in January is likely to prove temporary also.

New Zealand: The performance of services index fell to 52.0 in February, from 57.2 in January. The decline is likely to have extended in March.

The Reserve Bank of New Zealand cut the official cash rate yesterday by 75 basis points. Please refer to yesterday's morning report for more info.

United States: US President Trump issued a recommendation that people avoid social gatherings of more than 10 people, discretionary travel and going to bars, restaurants and food courts. Trump added that a nationwide curfew was not under consideration at this point, but said that the US economy could be heading into a recession.

We have early evidence of the impact of the coronavirus on business sentiment. In one of the earlier surveys on US manufacturing, the NY empire manufacturing index plunged from 12.9 in February to -21.5 in March, the lowest since March 2009 in the midst of the GFC.

Today's key data and events:

NZ WBC Consumer Confidence Q1 prev 109.9 (7am)
AU RBA Minutes for March Meeting (11:30am)
AU ABS House Prices Q4 exp 4.5% prev 2.4% (11:30am)
JN Industrial Production Jan Final (1:30pm)
EZ Labour Costs Q4 y/y prev 2.6% (9pm)
EZ ZEW Expectations Mar prev 10.4 (9pm)
UK ILO U/E Rate 3 mths Jan exp 3.8% prev 3.8% (10:30pm)
US Industrial Production Feb exp 0.4% prev -0.3% (12:15am)
US JOLTS Openings Jan exp 6401 prev 6423 (1am)
US NAHB Housing Market Index exp 74 prev 74 (1am)

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.

Janu Chan, Senior Economist
Ph: 02-8253-0898

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Janu Chan
chanj@banksa.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@banksa.com.au
(02) 8254 1316