

Morning Report

Monday, 18 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,404.8	1.4%			Last	Overnight Chg		Australia		
US Dow Jones	23,685.4	0.3%	10 yr bond	99.10			0.00	90 day BBSW	0.10	0.01
Japan Nikkei	20,037.5	0.6%	3 yr bond	99.76			0.01	2 year bond	0.25	0.00
China Shanghai	3,006.8	-0.1%	3 mth bill rate	99.86			0.00	3 year bond	0.24	0.01
German DAX	10,465.2	1.2%	SPI 200	5,436.0			32	3 year swap	0.20	0.00
UK FTSE100	5,799.8	1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.91	0.01
Commodities (close & change)*			TWI	56.9	-	-	57.2	United States		
CRB Index	124.7	1.6	AUD/USD	0.6460	0.6474	0.6402	0.6414	3-month T Bill	0.10	-0.02
Gold	1,743.7	27.4	AUD/JPY	69.29	69.54	68.66	68.71	2 year bond	0.15	0.00
Copper	5,156.3	-17.8	AUD/GBP	0.5284	0.5318	0.5271	0.5309	10 year bond	0.64	0.02
Oil (WTI)	29.4	1.9	AUD/NZD	1.0769	1.0844	1.0753	1.0824	Other (10 year yields)		
Coal (thermal)	54.3	-1.5	AUD/EUR	0.5980	0.5990	0.5920	0.5929	Germany	-0.53	0.01
Coal (coking)	114.9	0.3	AUD/CNH	4.5941	4.6055	4.5671	4.5744	Japan	0.00	0.00
Iron Ore	90.5	2.9	USD Index	100.3	100.5	100.1	100.4	UK	0.23	0.03

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: Market sentiment was mixed on Friday. Attention continues to be split between weak economic data, growing concerns over US-China relations and the gradual lifting of COVID-19 containment measures.

Stock markets closed mostly higher around the world, after swinging between gains and losses. Bond yields rose slightly and risk-on currencies were generally weaker.

Share Markets: Major US equity markets closed higher, but optimism over prospects of the reopening of the economy was constrained by dismal US economic data. The S&P 500 closed 11 points higher (or 0.4%) and the Dow Jones was 60 points stronger (or 0.3%). Despite the gains, both indices recorded losses over the week of 2.3% and 2.7%, respectively.

The ASX 200 had a good day on Friday, closing higher by 76 points (or 1.4%). It eked out its third consecutive monthly increase, rising 0.3% last week. The ASX 200 is up 18.9% from its low since the COVID-19 pandemic, reached on 23 March.

Interest Rates: US treasury yields ticked higher on Friday, as investors looked for signs that demand was set to improve as the economy reopens. The 10-year treasury yield rose 2 basis points to 0.64%. The 2-year yield remained steady at 0.15%.

Australian yields also rose on Friday. The 10-year

bond yield edged up 1 basis point to 0.91%, while the 3-year bond remained at 0.24%, within the RBA's target of "around 0.25%".

Foreign Exchange: The US dollar index was range-bound in trading on Friday. It closed up slightly at 100.402, after falling to as low as 100.080 following the release of weak US economic data. The safe-haven yen was an outperformer, strengthening to 107.11.

The Australian dollar was sold off on Friday evening, and is currently trading at US\$0.6417 this morning.

Commodities: Gold prices rose US\$27.4 per ounce on Friday to US\$1,743.7, supported by poor economic data and geopolitical concerns between the US and China. WTI oil futures advanced US\$1.9 per barrel to US\$29.4.

COVID-19: Global cases rose 57k to 4.7m on Sunday, according to data compiled by Bloomberg. The same data showed the number of fatalities up 2,414 to 314,096. Data from Bloomberg show the number of new daily cases and deaths are beginning to stabilise, but have yet to show definitive signs of a slowdown.

More US states announced widened reopening measures, including the western region of the state of New York. New York has been one of the worst-hit US states by the coronavirus in terms of both cases and deaths.

European countries have also continued to gradually ease strict lockdowns. About 70% of Spain has entered its first phase of re-opening, including permission for groups of up to 10 people to meet and for restaurants and bars to open outside service spaces.

In Australia, there were 9 new cases reported between 3pm Saturday and 3pm Sunday, according to the Department of Health. There have been 98 recorded fatalities.

A coalition of 62 countries has backed a joint push by Australia and the EU for an independent inquiry into the outbreak of COVID-19. Notable exclusions from the list of nations include the US and China. US negotiators have been pushing for tougher language in the motion. Negotiations are ongoing.

Australia: There was no major economic data released on Friday.

Europe: Preliminary Q1 GDP was unchanged from the initial estimate of -3.8%. Employment contracted 0.2% over the quarter, its first decline since 2013.

The March trade surplus shrank slightly, but remained wide at €23.5 billion compared with €25.6 billion. Both exports and imports fell.

New Zealand: Home sales plummeted 77.5% in April, amid the strict lockdown enforced during the month. The REINZ House Price Index showed that house prices fell 1.1%, which was the largest decline since May 2008. The extremely low volume of sales makes measuring housing prices more difficult.

China: Industrial output increased for the first time since the onset of the COVID-19 pandemic in April, while retail sales continued to contract. Investment declined, but at a slowing rate. The data show that the economy is continuing to re-open and recover, but that consumers remain wary and businesses are uncertain.

Industrial output rose 3.9% from a year earlier in April, up from a 1.1% fall in March. Fixed-asset investment decreased 10.3% over the first 4 months of the year, an improvement from a 16.1% fall in the first quarter compared with a year ago. Meanwhile, retail sales were down 7.5% compared with a year earlier in April, after falling 15.8% in March. Retail sales fell further than industrial output and fixed-asset investment following the outbreak of COVID-19, as much of the country was placed under stay-at-home orders.

United States: Data for April showed economic activity plunging, while more up-to-date survey

data improved somewhat, but remains at weak levels.

Retail sales fell 16.4% in April after falling 8.3% in March. It was a larger fall than the market was expecting and the largest monthly fall on record. The weak reading suggests that household consumption, which represents about two thirds of US GDP, is set to fall drastically in Q2.

Industrial production plunged 11.2% in April following a 4.5% fall in March. Capacity utilisation fell further to an all-time low of 64.9%, highlighting the lack of aggregate demand in the economy.

The University of Michigan's consumer sentiment survey, conducted in early May, surprised to the upside. The sentiment index rebounded to 73.7 from 71.8 in April. Sentiment fell to an 8-year low in April, but the injection of emergency stimulus via household transfers appears to have had an impact on confidence. The index for current conditions was the biggest outperformer, rising to 83.0 from 74.3 in March. Those identifying household finances as their primary concern fell to 17% from 22%. The expectations index fell to 67.7 in May from 70.1 previously.

The Federal Reserve Bank of New York's general manufacturing PMI improved to -48.5 in May from a record low -78.2 in March. It shows that activity is beginning to recover slightly following the gradual relaxation of containment measures, but that activity is likely to be sluggish for some time. Respondents were more optimistic about the economic prospects over the next 6 months, with the future index rising to 29.1, the highest since July last year.

Today's key data and events:

NZ Performance Services Index Apr prev 52.0 (8:30am)

UK Rightmove House Prices May prev -0.2% (9:01am)

JN GDP Q1 P exp -1.1% prev -1.8% (9:50am)

CH New Home Prices Apr prev 0.13% (11:30am)

JN Tertiary Index Mar exp -4.7% prev -0.5% (2:30pm)

US NAHB Housing Index May exp 35 prev 30 (12am)

UK BOE Teneyro Speaks (1am)

US Fed's Bostic Speaks (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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