

Morning Report

Friday, 19 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,936.5	-0.9%	Last		Overnight Chg			Australia		
US Dow Jones	26,080.1	-0.2%	10 yr bond	99.12	0.02			90 day BBSW	0.11	0.00
Japan Nikkei	22,355.5	-0.4%	3 yr bond	99.73	-0.01			2 year bond	0.26	-0.01
China Shanghai	3,080.9	0.1%	3 mth bill rate	99.85	-0.01			3 year bond	0.24	-0.01
German DAX	12,281.5	-0.8%	SPI 200	5,922.0	-5			3 year swap	0.24	0.00
UK FTSE100	6,224.1	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	-0.04
Commodities (close & change)*			TWI	60.1	-	-	60.0	United States		
CRB Index	137.1	0.7	AUD/USD	0.6883	0.6903	0.6836	0.6848	3-month T Bill	0.14	-0.01
Gold	1,727.0	0.4	AUD/JPY	73.65	73.90	72.99	73.23	2 year bond	0.19	0.00
Copper	5,755.3	42.8	AUD/GBP	0.5483	0.5530	0.5458	0.5513	10 year bond	0.71	-0.03
Oil (WTI)	38.9	1.0	AUD/NZD	1.0664	1.0687	1.0634	1.0662	Other (10 year yields)		
Coal (thermal)	54.2	0.3	AUD/EUR	0.6122	0.6132	0.6089	0.6112	Germany	-0.41	-0.02
Coal (coking)	115.5	-0.5	AUD/CNH	4.8712	4.8792	4.8423	4.8504	Japan	0.02	0.00
Iron Ore	100.0	-0.9	USD Index	97.1	97.6	97.0	97.5	UK	0.23	0.04

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: Global markets remained in a holding pattern overnight. A further increase in COVID-19 cases in parts of the US and China added to a sense of caution.

Initial jobless claims in the US fell, but by less than the market expected. 1.51 million Americans filed unemployment claims last week.

Share Markets: Major US equity markets opened slightly lower and were range-bound throughout the session. The Dow Jones fell 40 points (or 0.2%) while the S&P 500 erased losses over its final hour of trading to close marginally higher by 2 points (or 0.1%).

European shares closed mostly lower. After flirting with positive territory earlier in the session, the Euro Stoxx 50 fell by 17 points (or 0.5%). The FTSE 100 closed down 29 points (or 0.5%).

The ASX 200 closed down by 55 points yesterday (or 0.9%). Losses extended to 1.72% after the release of labour force statistics showing another slump in employment in May. After trading water at a low level, some of the losses were subsequently recovered – a U-shaped recovery analogous to the one that looks in store for the broader economy.

Interest Rates: There was little movement in government bond yields overnight. The US 2-year treasury yield traded sideways and closed unchanged at 0.19% while the 10-year shed 3 basis

points to 0.71%.

The Australian yield curve also flattened yesterday. The 10-year bond yield fell 4 basis points to 0.88%. The shorter-end remains anchored around the RBA's target for the 3-year bond yield of around 0.25%.

Foreign Exchange: The US dollar continued its ascendancy overnight. The US dollar index rose 0.40 to 97.50, its third consecutive gain and the highest since the start of the month (June 2).

The pound fell after the Bank of England (BoE) boosted its bond-buying program and retained a dovish tone.

The Australian dollar touched a high of US\$0.6903 yesterday evening before weakening over the US trading session amid a more risk-averse mood. The AUD is currently at US\$0.6848 this morning.

Commodities: Oil prices rallied after Iraq told OPEC+ that it was fully committed to meeting its agreed production cuts this month, and that it would make up for the shortfall that it missed in the previous month. WTI futures closed higher by US\$1.0 per barrel to US\$38.9.

COVID-19: Global COVID-19 cases topped 8.4 million and deaths surpassed 450,000, according to data compiled by Bloomberg.

Concerns remain over hotspots re-emerging in some US states (notably Florida, California and

Texas) and in Beijing, China. Meanwhile, cases surged 2.4% in a day in Brazil, with the case-count now almost at 1 million. Brazil has recorded 47,748 deaths due to COVID-19.

Australia recorded 21 new cases in the 24 hours to 9pm last night, according to the Department of Health. The number of new daily cases has risen over the past week, however, the number acquired locally remains low. A majority of cases have been confirmed in arrivals from overseas who are in quarantine, according authorities.

Australia: The shock of COVID-19 continued to batter the labour market in May, even as restrictions began to ease. May's labour force outcome completes a one-two punch to the labour market. The economy shed a further 228k jobs in May, which is the second biggest drop in the series history and follows a record-sized decline of 607k in April. The unemployment rate jumped to 7.1% in May from 6.4% in April, the highest since October 2001. The participation rate fell again, to 62.9% from 63.6% in April. A lower participation rate has prevented a sharper rise in the unemployment rate. Had the participation rate held steady, the unemployment rate would have reached 8.1%. The enormous shock to the economy and the significant government intervention in the labour market means that the return to normal labour market conditions will take time. We continue to expect the unemployment rate to edge higher. The biggest-sized job losses might be behind us, although the ending of JobKeeper in September threatens a re-acceleration of job losses.

Europe: The European Central Bank (ECB) said that it has lent out €1.31 trillion to 742 banks through its Targeted Longer-Term Refinancing Operations (TLTRO). The loans are offered at rates as low as 50 basis points below prevailing market rates and have terms of 3-years.

Elsewhere in the region, the Swiss National Bank kept its key policy rate unchanged at -0.75% and signalled stronger currency intervention to prevent an appreciation in the franc. Norges Bank also left its policy rate unchanged (at 0.0%).

New Zealand: GDP contracted 1.6% in the March quarter, the largest quarterly decline since 1991 and the first since the December quarter 2010. Consensus estimates were for a 1.0% drop. The sharp contraction reflected the strict lockdown measures which took effect at the end of March.

United Kingdom: The BoE beefed up its bond-buying program by £100 billion per month. Its

quantitative easing program, administered through its Asset Purchasing Facility, now stands at £745 billion. The benchmark policy rate was left unchanged at 0.10%.

The Monetary Policy Committee highlighted the downside risks to the economy, with particular emphasis on the labour market. It stressed that more accommodative policy would be provided, if required.

United States: Initial jobless claims fell to 1.51 million last week from 1.57 million in the previous week. The consensus forecast was for a decline to 1.29 million. Continuing claims, which reflect longer-term unemployment, inched lower to 20.5 million from 20.6 million previously.

Unemployment claims peaked at 6.9 million in the week ending 27 March 2020 and have since fallen sharply. The slowdown in the decline over the past two weeks underscores the risk of a sustained downturn in the US economy as labour market conditions remain dire. Initial weekly jobless claims haven't been below 1 million since March, dwarfing the peak in weekly claims of 665k during the GFC.

There was more positive news from the Philadelphia Fed manufacturing survey, which surged to +27.5 in June from -43.1 in May. All components of the survey improved, including new orders and shipments. The index measuring the outlook for the next six months rose to a near 30-year high of 66.3, indicating that firms expect business conditions to improve.

Today's key data and events:

JN CPI May y/y prev 0.1% (9.30am)

AU Retail Trade May Preliminary (11.30am)

UK Retail Sales May exp 6.3% prev -18.1% (4.00pm)

UK Public Sector Borrowing May prev 61.4 (4.00pm)

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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