

# Morning Report

Wednesday, 1 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,076.8	-2.0%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
Dow Jones	21,917.2	-1.8%	10 yr bond	99.26	-0.01			90 day BBSW	0.37	-0.02
Nikkei	18,917.0	-0.9%	3 yr bond	99.73	-0.01			2 year bond	0.25	-0.01
Shanghai	2,882.2	0.1%	3 mth bill rate	99.65	-0.01			3 year bond	0.24	-0.02
DAX	9,935.8	1.2%	SPI 200	5,180.0	71			3 year swap	0.38	0.00
FTSE100	5,672.0	1.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.76	-0.02
Commodities (close & change)*			TWI	54.4	-	-	54.7	<b>United States</b>		
CRB Index	121.8	0.1	AUD/USD	0.6170	0.6214	0.6078	0.6141	3-month T Bill	0.07	0.02
Gold	1,577.2	-45.3	AUD/JPY	66.48	67.27	65.59	66.08	2 year bond	0.25	0.03
Copper	4,943.3	180.8	AUD/GBP	0.4968	0.5033	0.4908	0.4948	10 year bond	0.67	-0.06
Oil (WTI)	20.3	0.2	AUD/NZD	1.0255	1.0335	1.0200	1.0305	<b>Other (10 year yields)</b>		
Coal (thermal)	67.9	-1.1	AUD/EUR	0.5582	0.5639	0.5545	0.5570	Germany	-0.47	0.02
Coal (coking)	145.5	-14.5	AUD/CNH	4.3875	4.4116	4.3176	4.3568	Japan	0.02	0.00
Iron Ore	81.7	-6.5	USD index	98.96	99.95	98.95	99.02	UK	0.36	0.02

\*Gold, copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7:30am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session).

**Main Themes:** Risk aversion returned overnight, as the quarter drew to a close. US equities ended the session lower, finishing the quarter with their worst performance since 1987. The Federal Reserve once again stepped in to provide US dollar liquidity to markets.

**Share Markets:** US share markets began on a positive note as US consumer confidence and business conditions were not as bad as feared. However, the gains turned into losses as the session wore on. The Dow was down 1.4% and the S&P500 fell 1.8% last night. Over the quarter, both the Dow and the S&P500 were down over 20%, the worst quarterly performance for both indices since 1987.

In Australia yesterday, the ASX200 ended the quarter 24% lower.

**Interest Rates:** Yields on US treasuries fell, reflecting the downturn in risk appetite. US 10-year yields fell 5 basis points to 0.68%.

The US Federal Reserve announced a new repo facility aimed at boosting US dollar liquidity and to ensure smooth functioning of markets. The facility allows foreign central banks to exchange holdings of US treasuries for US dollars. The action may have helped bring down bond yields and the US dollar yesterday.

**Foreign Exchange:** The US dollar index weakened

slightly, most likely reflecting a raft of recent measures from the Federal Reserve. The US dollar has been one of the strongest performing currencies over the past month as recent market turmoil has been met with a surge for US dollar demand. Recently, the Federal Reserve has provided measures to boost US dollar supply and ease liquidity strains.

The renewed bout of risk aversion weighed on the AUD slightly. After briefly hitting 62 US cents yesterday late afternoon, it eased to 61.4 US cents this morning.

**Commodities:** Oil prices were relatively unchanged last night but had huge monthly and quarterly losses. US WTI prices lost 54% and 66%, respectively over the month and the quarter, as a pact to curtail supply broke down and as demand was weighed down by the impact of the coronavirus. Overnight, support was gained after US and Russian leaders, Trump and Putin, agreed on talks on stabilising energy markets.

**COVID-19:** New cases have risen 60867 to bring total cases to 845,526 according to the worldometer site. The US has reported 17,000 new cases with New York as the epicentre. New daily cases in Spain and Italy remain high, exceeding 4000 but the rate of growth has eased.

There is now a total 4557 cases in Australia, and the

death toll has reached 19. Encouragingly, the daily growth rate in Australia has slowed from 25-30% a week ago to approximately 9%, reflecting the containment measures over recent weeks.

**Australia:** Private sector credit maintained a moderate pace of growth in the first couple of months of 2020. In February, private sector credit grew 0.4% following similar growth in January.

Credit to businesses grew 0.9% in February, the strongest monthly pace in 2½ years. The annual rate of growth picked up to 3.5%. It points to positive momentum in business activity just prior to recent containment measures to prevent the spread of the coronavirus.

Housing credit continued to grow modestly, at a 0.3% pace. It has held at this pace for six consecutive months. In February, growth was driven by owner-occupier credit, which grew 0.4%.

The story in regards to economic activity has changed rapidly since February. The coming months should see a contraction in credit, as businesses seek to maintain cashflows amid big hits to revenue and as households lose their ability to take on more debt on reduced incomes.

**New Zealand:** Dwelling consents rose 4.7% in February, leaving consent issuance at a 45 year high. While there is a large pipeline of planned work, Covid-19 disruptions will hamper building activity through the first half of 2020.

**Japan:** Japan's factory production showed some resilience before the coronavirus outbreak intensified globally. Factory output rose 0.4% in February while retail sales rose 0.6% over the same month.

Japan has so far not reported a widespread outbreak of the coronavirus domestically, but the economy is still expected to experience a sharp slowdown due to containment measures. Prime Minister Shinzo Abe has said he is in the process of compiling the country's biggest ever stimulus package to support the economy.

**China:** Chinese manufacturing PMI rebounded strongly in March, signalling a gradual return to normal following the unwinding of some lockdown measures over the month. The official manufacturing PMI rose to 52.0 in March from a record low 35.7 in February. The non-manufacturing measure rose to 52.3 from 29.6 in February.

The increase is a positive sign for economic growth, however, it does not signal that output is back to

normal. The survey measures the share of firms reporting increased output compared with a month ago, but does not account for the level of output. Given that containment measures peaked in February, it is not surprising that more firms reported higher output in March compared with this period of peak disruption to activity.

The sub-index measuring new export orders rose to 46.4 in March from 28.7 in February, signalling that world demand remained soft during the month.

**Europe:** Headline inflation eased from an annual rate of 1.2% in February to 0.7% in March, the lowest in five months. Prices are likely to be held down by plunging oil prices and weak demand.

**United States:** Confidence did not weaken as much as expected. The consumer confidence index fell from 132.6 in February to 120.0 in March, but it was still the lowest since 2017.

The MNI Chicago PMI also weakened, from 49.0 in February to 47.8 in March, pointing to deteriorating business conditions in the Chicago area, but not a significant one. Stockpiling ahead of expected quarantines and shortages were helping some businesses. The index however, remains below 50 signalling contraction.

San Francisco Fed President Mary Daly said the economy was already likely in recession and that "the Federal Reserve is prepared to do whatever it takes within our powers to ensure that we are part of the solution of shoring up people over the virus, shoring up the American economy and putting us into the best position to grow again once the virus recedes".

US President Trump has raised the prospect of infrastructure spending of \$2 trillion. Discussions are mounting over a fourth round of fiscal stimulus.

**Today's key data and events:**

AU AiG Mfg Index Mar prev 44.3 (8:30am)  
AU CBA Mfg PMI Mar F prev 50.1 (9am)  
AU CoreLogic House Prices Mar exp 0.7% prev 1.2% (10am)  
JN Tankan Large Mfg Index Q1 exp -10 prev 0 (11:30am)  
AU Building Approvals Feb exp -2.5% prev -15.3% (11:30am)  
AU RBA Minutes of Mar 18 Meeting (11:30am)  
JN Jibun Bank Mfg PMI Mar F prev 44.8 (11:30am)  
CH Caixin Mfg PMI Mar exp 45.0 prev 40.3 (12:45pm)  
EZ Markit Mfg PMI Mar F exp 44.6 prev 44.8 (7pm)  
UK Markit Mfg PMI Mar F exp 47.0 prev 48.0 (7:30pm)  
EZ Unemployment Rate Feb exp 7.4% prev 7.4% (8pm)  
US ADP Employment Mar exp -150k prev 183k (11:15pm)  
US Markit Mfg PMI Mar F exp 48.0 prev 49.2 (12:45am)  
US ISM Manufacturing PMI Mar exp 45.0 prev 50.1 (1am)  
US Fed's Rosengren Speaks Virtually (5am)

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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