

Morning Report

Monday, 1 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,755.7	-1.6%			Last	Overnight Chg		Australia		
US Dow Jones	25,383.1	-0.1%	10 yr bond	99.12			-0.01	90 day BBSW	0.10	-0.01
Japan Nikkei	21,877.9	-0.2%	3 yr bond	99.73			0.00	2 year bond	0.27	0.00
China Shanghai	2,989.9	0.2%	3 mth bill rate	99.84			0.00	3 year bond	0.26	0.00
German DAX	11,586.9	-1.6%	SPI 200	5,725.0			-24	3 year swap	0.27	0.00
UK FTSE100	6,076.6	-2.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	0.01
Commodities (close & change)*			TWI	58.6	-	-	58.8	United States		
CRB Index	132.2	2.5	AUD/USD	0.6624	0.6683	0.6619	0.6662	3-month T Bill	0.12	-0.02
Gold	1,730.3	20.8	AUD/JPY	71.30	71.93	71.14	71.77	2 year bond	0.16	-0.01
Copper	5,358.8	45.0	AUD/GBP	0.5376	0.5416	0.5359	0.5397	10 year bond	0.65	-0.04
Oil (WTI)	35.5	1.8	AUD/NZD	1.0685	1.0771	1.0683	1.0750	Other (10 year yields)		
Coal (thermal)	55.5	-0.1	AUD/EUR	0.5979	0.6011	0.5962	0.5992	Germany	-0.45	-0.03
Coal (coking)	104.4	-5.2	AUD/CNH	4.7473	4.7816	4.7442	4.7537	Japan	0.01	0.00
Iron Ore	97.2	4.3	USD Index	98.5	98.5	97.9	98.3	UK	0.18	-0.03

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

Main Themes: Investor sentiment continued to improve after rhetoric from US President Trump on China was not as bad as feared. Trump also stopped short of imposing economic sanctions against China.

Yesterday, a range of purchasing managers' indexes published showed an economic recovery is likely to continue in China.

Share Markets: Major US share market indexes closed out the final trading day of May mixed after US President Donald Trump stopped short of imposing economic sanctions against China, even though he blasted the country for its actions on the pandemic and in Hong Kong. The Dow Jones closed 18 points lower (or -0.1%) and the S&P 500 index closed 15 points higher (or +0.5%). The Nasdaq finish 121 points higher (or +1.3%).

Despite the volatile trading session, all three indexes posted back-to-back monthly advances in unison, which is the first time this has occurred since December 2019. The S&P 500 index and Dow Jones both finished the month up more than 4%, while the Nasdaq rose nearly 6.8%.

Interest Rates: US bond yields fell across the

curve in Friday's trading session. The declines were deeper at the longer end with the 10-year bond yield closing 4 basis points lower compared with the 2-year yield finishing just 1 basis point lower. Benchmark lengthening index lengthening spurred buying of longer-dated bonds.

Australian 3-year government bond yields ranged between 0.26% and 0.27%, while the 10-year bond yield ranged between 0.87% and 0.90%.

Foreign Exchange: The AUD/USD exchange rate whipsawed about in what was a volatile trading session. It reached as high as 0.6683, which is the highest rate since March 9, before encountering some selling. It currently is trading at around the 0.6670 level. The Australian dollar has a deluge of domestic data to get through this week, which includes GDP data on Wednesday for the March quarter.

Commodities: News reports speculated over the weekend that OPEC may bring forward its meeting by a few days.

COVID-19: Australia has a further easing of restrictions occurring today, consistent with the

Prime Minister's 3-stage plan.

A Covid-19 vaccine candidate being developed in China is expected to be available as soon as the end of this year, according to the state-owned Assets Supervision and Administration Commission. The vaccine is being jointly developed by the Beijing Institute of Biological Products and China's National Biotec. The vaccine has completed phase II testing.

Australia: Weekend news reports suggest Treasurer Josh Frydenberg is preparing to unveil a new home-buyers scheme this week that will be available for all Australians – not just first-time buyers, as has traditionally been the case with such grants.

Data on Friday showed that credit growth extended to the private sector stalled in April, following a 1.1% increase in March. It was the first time credit in the economy failed to grow on a monthly basis since recording a 0.1% fall in June 2011. The stable outturn for credit was despite an expected sharp decline in economic activity in April.

Outstanding balances of business and housing credit were supported by loan payment deferrals or redraws. It is also likely that lines of credit were drawn down to meet temporary cash flow shortfalls over the month.

The physical restrictions placed on retailers appear to have affected other forms of consumer credit; the level of "other personal" credit (which includes credit cards and personal loans) fell by 3.0% in April, which is the most on record.

We expect total credit to contract in the coming months as the headwinds facing demand intensify.

China: China's purchasing managers' indexes published yesterday showed a recovery in activity is expected to continue. The PMIs for manufacturing, services and the composite each printed above the critical 50.0 level in May. However, the outcome for manufacturing was worse than expected by consensus. The manufacturing gauge declined to 50.6 in May, from 50.8 in April. Consensus had anticipated a stronger outcome of 51.1. The services index

rose to 53.6 in May, driven by construction. And the composite index stayed steady at 53.4.

Japan: Weakness in the Japanese economy extended into the second quarter of the year. Retail spending contracted 9.6% in April, as a state of emergency was declared and authorities urged people to stay at home. There was also a downturn in factory activity; industrial production fell 9.1% in April, the largest decline since March 2011, when an earthquake and tsunami devastated the region. It was also the third consecutive monthly decline.

Japan's jobless rate edged up only slightly, from 2.5% in March to 2.6% in April, but other indicators of the labour market suggested further weakness. The job-to-applicant ratio fell from 1.39 to 1.32, and for full-time jobs, the job-to-applicant ratio fell from 1.03 to 0.98. Another indicator of weakness was new job offers which fell 31.9% in the year to April.

United States: The Chicago PMI fell to 32.3 in May, from 35.4 in April. Consensus had expected a rebound to 40.0. Production and orders fell in the month and inventories increased.

The final reading for consumer sentiment published by the University of Michigan fell to 72.3 in May, from the preliminary outcome of 73.7. The lift from April's outcome of 71.8 was more subdued due to both softer current and expectation profiles. This survey also showed that inflation expectations rose in May, suggesting policies from the Federal Reserve may be working. The 1-year-ahead expectations inflation gauge rose to 3.2% in May, from the initial reading for May of 3.0% and from April's result of 2.1%.

Personal spending fell by 13.6% in April, but personal income unexpectedly increased by 10.0% in the same period. The income increase was driven by a boost from Federal stimulus payments.

The Federal Reserve Chair Powell reiterated that a negative interest rate policy is not an appropriate tool for the Fed to employ. He did not discuss yield curve control.

US President Trump's response to China for its crackdown on Hong Kong included a barrage of criticism but stopped short of fully escalating tensions between the two nations. While the President's speech was heated in rhetoric, it lacked specifics around measures that would directly impact Beijing. He announced the U.S. would begin the process of stripping some of Hong Kong's privileged trade status, without detailing how quickly any changes would take effect and how many exemptions would apply. However, according to commentary in China's People's Daily, President Trump's plan to end some trading privileges for Hong Kong is "doomed to fail" and marks a "gross interference" in China's internal affairs. Moreover, Hong Kong's government said the actions would be "unjustified" and that China is within its "legitimate rights" to pursue new national security laws.

In other developments, violence spread across the US over the weekend, with demonstrators and police clashing from New York to Los Angeles, leaving behind burned out police cars and damaged property. The National Guard was summoned to several cities to help quell the increasingly heated situation following the killing of George Floyd. Several mayors also imposed curfews. Amazon said it is scaling back deliveries and adjusting routes in a small number of cities including Chicago and Los Angeles.

Trump has delayed the Group of Seven (G-7) meeting schedule for June to autumn or after the US election. Trump wishes to expand the guest list to include leaders from Russia, Australia, India and South Korea.

Today's key data and events:

AU AiG Perf of Manufacturing May prev 35.8 (8.30am)
AU CoreLogic Dwelling Prices May exp -0.4% prev 0.2% (10am)
JN Nikkei PMI Mfg May final prev 38.4 (10.30am)
AU MI Inflation Gauge May y/y prev 1.2% (11.00am)
CH Caixin Mfg PMI May exp 49.6 prev 49.4 (11.45am)
EZ Markit Mfg PMI May Final exp 39.5 prev 39.5 (6pm)
UK Markit Mfg PMI May Final exp 40.8 prev 40.6 (6.30pm)
US Markit Mfg PMI May Final exp 40.0 prev 39.8 (11.45pm)
US Constr'n Spending Apr exp -6.0% prev 0.9% (12.00am)
US ISM Mfg Index May exp 43.7 prev 41.5 (12.00am)

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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