Morning Report

Friday, 20 March 2020

Equites (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)		
S&P / ASX200	4782.9	-3.4%		Last		Overnight Chg		**Australia**		
Dow Jones	20087.2	0.9%	10 yr bond	98.67		0.01		10 year bond	1.58	0.39
Nikkei	16552.8	-1.0%	3 yr bond	99.72		0.16		3 year bond	0.36	-0.15
Hang Seng	21709.1	-2.6%	3 month bill	99.51		0.00		90 day BBSW	0.65	0.04
Shanghai	2702.1	-1.0%	SPI 200	4889		89		**United States**		
DAX	8610.4	2.0%	FX Last 24 Hours	Open	High	Low	7:15 AM	10 year bond	1.16	-0.10
FTSE 100	5151.6	1.4%	TWI	53.0	-	-	49.9	2 year bond	0.46	-0.07
Commodites (Close & Change)			AUD/USD	0.5771	0.5962	0.5506	0.5755	3-month T Bill	0.05	0.03
CRB Index	127.6	7.3	AUD/JPY	62.20	65.52	59.90	63.61	**Other (10 year yields)**		
Gold	1470.6	-15.4	AUD/GBP	0.4969	0.5063	0.4790	0.4992	Germany	-0.17	0.06
Copper	4745.0	-399.0	AUD/NZD	1.0054	1.0200	1.0005	1.0107	Japan	0.08	0.02
Oil (WTI)	25.1	4.6	AUD/EUR	0.5286	0.5547	0.5046	0.5384	UK	0.72	-0.07

Data as at 7:20am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg, Refinitiv.

Main Themes: Central banks and governments in major economies rolled out more economic and fiscal stimulus to ease market turmoil. In the past 24 hours, more stimulus measures were deployed in Australia, European Union and UK. And US Federal Reserve officials suggested more help is on the way. Some calm seemed to be restored to financial markets overnight.

However, whilst the number of new daily infections continues to rise globally, this calm is likely only to be brief. Indeed, economic data in Europe and US overnight provided a glimpse of the economic deterioration occurring.

Share Markets: US share markets gained ground in bumpy trading, as US President Trump backed the idea of the government taking stakes in companies that get taxpayer aid. The Dow Jones is up 188 points (or +0.9%) and the S&P 500 index is up 11 points (or +0.5%).

European shares had the best day since 2016 after yesterday's stimulus announcement from the European Central Bank. The Euro Stoxx 50 index jumped 68 points (or +2.9%).

In trade yesterday, the ASX 200 index closed 170 points weaker (or -3.4%). The ASX 200 index is now down 49.8% from its peak on February 20.

Interest Rates: US 2-year treasury yields fell from an overnight high of 0.55% to an overnight low of 0.33% and is now at 0.46%. The US 10-year yield fell from 1.27% to 1.00% and is now at 1.14%.

Interest-rate markets are pricing a terminal rate for the federal funds rate of 0.07% (versus the current mid-rate of 0.125%).

The Australian 3-year government bond yield fell further overnight, from 0.35% to 0.27%, after yesterday afternoon's announcement by the Reserve Bank (RBA) that it is starting quantitative easing (QE). QE will involve buying bond purchases to target the 3-year bond yield at "around" 0.25%. Yesterday's immediate reaction was a sharp drop in the 3-year yield of nearly 20 basis points.

The Australian 10-year yield gyrated more wildly. It spiked sharply (just over 100 basis points) to 2.50% after the RBA announcement. It then almost immediately fell back down to 1.40%, before consolidating at around 1.49%.

In a questions and answers session, RBA Governor Lowe said he currently believes this current RBA stimulus package is enough. But if it is not, he is prepared to do whatever it takes, and nothing is off the table.

Foreign Exchange: The US dollar has rallied hard overnight against other major currencies; the USD index rising to an overnight high of 102.84, from a low of 99.15 (i.e. a rise of 3.7%). The USD index is now at its highest since January 2017.

Ahead of the RBA announcement yesterday, AUD/USD depreciated sharply, falling from 0.5820 to 0.5510. Major support sits at 0.5500. So, AUD/USD bounced off this level to reach an overnight high of 0.5962.

Commodities: Oil's wild ride continued. The West

Texas Intermediate price for oil jumped 23.6% overnight, after plunging to an 18-year low of US$20.37 a barrel in the previous session.

US Treasury Secretary Mnuchin said he will recommend US President Trump ask Congress for as much as $20 billion to keep the Strategic Petroleum Reserve full for a decade. The Department of Energy said that Trump has instructed the agency to fill the reserve "to its maximum capacity by purchasing 77 million barrels of American-made crude oil."

COVID-19: The number of coronavirus deaths in Italy surpassed those in China overnight, according to Worldometer data. Italy has recorded 3,405 deaths compared with 3,245 in China. The number of confirmed infections worldwide is now 241,783 with fatalities at 9,989. The largest daily increase in infections overnight came from Italy, Spain, Germany, the US and Iran.

In Australia, the number of infections has risen to 709 with 6 deaths.

The US is preparing to raise its travel alert to its highest level for the entire world.

Australia: The Reserve Bank (RBA) has come out swinging against the impact of the virus with 5 key measures yesterday and promised to do “whatever is necessary” with “nothing…off the table”.

First, it cut the cash rate by 25 basis points, taking the cash rate to a new record low of 0.25%. This level represents the effective lower bound for the cash rate.

Second, the RBA issued forward guidance on the cash rate. RBA Governor Lowe in a speech said it is “quite likely” the cash rate could be at this level for “three years”.

Third, the RBA broke new ground, launching a quantitative easing (QE) program for the first time ever. It involves targeting the Australian 3-year bond yield at “around” 0.25% rather than buying a specified quantity of bonds. There are some advantages to this “yield-curve-control” approach.

The RBA Governor said he plans to remove the yield target before the cash rate is increased.

Fourth, the RBA will provide term funding for banks to access cheaper credit from the RBA in order to support small and medium-sized businesses.

The RBA has highlighted small and medium-sized businesses as a priority. Many of these businesses are going to find the coming months very difficult, as demand for many goods and services dries up. The RBA wants to help these otherwise viable businesses survive.

Finally, the RBA will be renumerating exchange-settlement balances held at the RBA at 10 basis points instead of zero.

The RBA will continue to provide liquidity to financial markets through its repo operations.

In addition, the Treasurer’s Office announced that the Australian Office of Financial Management will be provided with an investment capacity of $15 billion to invest in wholesale funding markets used by small ADIs and non-ADI lenders.

The various elements of this package reinforce one another and will help to lower funding costs across the economy and support the provision of credit, especially to businesses.

It’s unlikely that even in the short term the latest stimulus package will put an end to volatility in financial markets and uncertainty in the economy. A decline in the daily run rate of new global infections is needed first.

However, this package is welcomed in trying to support the Australian financial system during extraordinary and challenging times. The virus has major health ramifications, as well as significant economic impacts.

The RBA expects the Australian economy to recover once the virus passes. And when the recovery comes, these measures announced today will give the recovery support and help create a bridge from now until then.

In data published yesterday, the unemployment rate fell 0.2 percentage points to 5.1% in February, fully recovering from the 0.2 percentage point rise in January. The upward trend in employment growth continued; 26.7k net jobs were added in February following a 12.9k increase in January.

The global outbreak of the coronavirus is expected to cause a deep shock to economic growth, despite fiscal and monetary stimulus measures. The unemployment rate will rise.

The RBA Governor yesterday said they are bracing for a “steep” rise in the unemployment rate. We anticipate it will reach over 7% later this year.

China: Chinese government officials said last night during European hours that it would increase its Budget deficit.

Europe: The European Central Bank (ECB) added further stimulus in an unscheduled meeting yesterday (or Wednesday night in Europe). The ECB will add an additional €750 billion to its bond purchase program, which will run until at least the end of 2020. The programme is to be extended to quality commercial paper and will include Greek government debt.

Denmark's National bank lifted its benchmark rate by 15 basis points to -60 basis points to stem unwanted currency moves. It also signed further currency swap lines with the US Federal Reserve, citing that other Scandinavian Banks had signed similar swap lines.

The Norges Bank also said it is signing USD swap lines and stated that it was considering intervention in the Norwegian Krone (NOK) against "an extraordinary situation" in markets.

The Swiss National Bank (SNB) refrained from altering its negative interest rate policy whilst stating that it was actively intervening in currency markets to weaken the Swiss franc (CHF).

Germany has stated that it would provide €50 billion to support workers.

In data published overnight, Germany's IFO survey slumped to post 2009 lows. The business climate index fell to 87.7 in March (from 96.1) and the expectations sub index fell to 82.0 (from 93.4).

New Zealand: The Reserve Bank of New Zealand (RBNZ) this morning announced a set of measures aimed at restoring order to the short-term funding markets, including a term auction facility (banks can access secured funding up to 12 months maturity), adding liquidity to the fx swap market and establishing a USD swap line with the US Federal Reserve. It also said it was supporting the New Zealand government bond market.

In data published yesterday, GDP grew by 0.5% in the December quarter of last year, which was in line with consensus forecasts. After a loss of momentum through the first half of the year, economic activity reaccelerated again in the second half of the year, buoyed by supportive monetary policy and increases in fiscal spending. However, a significant deterioration in economic activity is expected for this year.

Japan: Inflation edged down from an annual rate of 0.7% in January to 0.4% in the year to February. There is a risk of further downward pressure on prices as global demand wanes and fuel costs fall.

United Kingdom: The Bank of England (BoE) announced a 15 basis points rate cut, taking the bank rate to a record low of 0.1%. It also added another £200 billion to its asset-purchasing programme. The expansion of its quantitative-easing programme is designed to support corporate and government bond markets, which have been deteriorating and so tightening financial conditions.

United States: US Treasury Secretary Steven Mnuchin pushed his plan to send checks of $1,000 to every American adult and $500 per child within three weeks as Congress continued negotiations on a massive stimulus package. The House was told not to return to Washington until the Senate passes its bill.

US Federal Reserve officials made it clear more help is on the way. Richmond Federal Reserve President Thomas Barkin said officials should be prepared to take further steps, including the possibility of purchasing municipal bonds and expanding Treasury purchases well past $500 billion.

Meanwhile, Boston Federal Reserve President Eric Rosengren offered an upbeat assessment, saying the US can withstand the short-term damage caused by the pandemic.

A glimpse of the deterioration that's coming showed up in US economic data overnight.

Filings for unemployment benefits rose by 70,000 to a two-year high of 281,000 in the week ended March 14. The largest gains were recorded in Washington and California, which are also the States with the largest coronavirus outbreaks.

The Philadelphia Fed's survey of factories showed conditions in the area worsened in March by the most on record. The main index plunged from 36.7 in February to -12.7 in March, recording its largest monthly fall on record and taking the reading to the lowest level since 2012.

Today's key data and events:

NZ Credit Card Spending Feb prev 1.3% (1.00pm)

EZ Current Account Jan prev €32.6 billion (8pm)

US Existing Home Sales Feb exp 0.9% prev -1.3% (1.00am)

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.

Besa Deda, Chief Economist

Ph: 02-8254-3251

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