

Morning Report

Tuesday, 21 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,353.0	-2.5%			Last	Overnight Chg		Australia		
US Dow Jones	23,650.4	-2.4%	10 year bond	99.18		0.01		90 day BBSW	0.13	0.00
Japan Nikkei	19,669.1	-1.1%	3 year bond	99.74		0.00		2 year bond	0.23	0.00
China Shanghai	2,989.6	0.5%	3 month bill rate	99.80		-0.01		3 year bond	0.26	0.01
German DAX	10,675.9	0.5%	SPI 200	5,311.0		-53		3 year swap	0.32	0.00
UK FTSE100	5,812.8	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.84	-0.02
Commodities (close & change)			TWI	56.3	-	-	56.2	United States		
CRB Index	118.8	-5.0	AUD/USD	0.6322	0.6397	0.6333	0.6334	3-month T Bill	0.07	-0.04
Gold	1,695.7	12.8	AUD/JPY	67.90	68.90	68.16	68.17	2 year bond	0.20	0.00
Copper	5,167.8	-32.8	AUD/GBP	0.5047	0.5130	0.5075	0.5090	10 year bond	0.61	-0.04
Oil (WTI)	-13.1	24.5	AUD/NZD	1.0543	1.0556	1.0488	1.0494	Other (10 year yields)		
Coal (thermal)	61.5	-0.5	AUD/EUR	0.5795	0.5876	0.5831	0.5829	Germany	-0.45	0.02
Coal (coking)	135.1	-0.9	AUD/CNH	4.4700	4.5289	4.4864	4.4932	Japan	0.02	-0.01
Iron Ore	84.9	0.4	USD Index	99.6	100.1	99.7	99.9	UK	0.34	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: By far the biggest event overnight was the price of oil for the near-term futures contract collapsing and going negative for the first time in history. The collapse reflects a deep fall in demand, leaving energy companies awash with oil and nowhere to store it.

The decline in oil prices hurt investor sentiment and equities overnight.

Speculation that Virgin Australia will also go into administration today is also dominating local news.

Share Markets: The collapse in oil prices pushed US share markets lower. The Dow Jones closed 592 points lower (or -2.4%) and the S&P 500 share market index finished 51 points weaker (or -1.8%).

Investor sentiment had been improving in recent weeks. However, risk aversion returned overnight with the VIX index rising by nearly 6 points to 43.8 – the highest level in nearly two weeks.

Yesterday, the ASX200 index closed 135 points lower (or -2.5%), but last week it finished up 1.9% and recorded its fourth straight weekly close higher.

Virgin Australia is expected to announce to the stock exchange today that it is going into voluntary administration.

Interest Rates: US government bond yields were relatively stable in overnight trade, despite the huge falls in equities and oil. The US 2-year bond

yield closed unchanged and the US 10-year yield closed 4 basis points lower at 0.61%.

The Australian 3-year government bond yield ranged between 0.26% and 0.27% and the Australian 10-year yield ranged between 0.82% and 0.84%.

Foreign Exchange: It was a very volatile trading night for the Australian dollar overnight. However, AUD/USD stuck to its recent trading ranges of 0.6315-0.6397 and currently remains near the bottom of this range, as risk aversion rose again. The AUD was also taking its cue from the USD index overnight. Oil-sensitive currencies such as the CAD and NOK depreciated against the USD overnight, reflecting the weakness in oil prices.

Commodities: Oil prices collapsed to unthinkable levels overnight. The price on the futures contract for West Texas crude that is due to expire tonight AEST fell into negative territory; it fell to an overnight low of -US\$40.32 a barrel and closed at -US\$13.10 a barrel. With the pandemic bringing the global economy to a standstill, there is so much unused oil that energy companies have run out of room to store it. Without storage, demand for a near-term crude contract has collapsed. Underscoring just how acute the concern is over the lack of immediate storage space, the price on the futures contract due a month later settled 19.6%

lower at US\$20.43 per barrel. The gap between the two contracts is by far the biggest ever.

COVID-19: There were 68.3k new global daily cases on April 20, according to Worldometer. It compares with the recent peak in new daily cases of 99k on April 12.

In other news, New York state reported the lowest death total since the start of the month and the sixth straight drop, suggesting the outbreak has possibly begun a descent.

In France, the number of hospitalizations fell for a sixth day to the lowest in almost two weeks, while Italy reported the fewest new cases since March 10 as government advisers urged caution before easing the lockdown.

Daily infections in Singapore topped 1,000, and Hong Kong had no new cases for the first time since March.

In Australia, the number of infections rose by 7 to 6,619 in the past 24 hours and the number of deaths to date is 71. There are 2,290 active cases in Australia.

Australia: Yesterday, the Australian Bureau of Statistics (ABS) released the first stage of a survey estimating the impact of COVID-19 on households. The survey included questions on the job situation of Australians. Of the respondents, 63% said that they had a job in the first week of April, down from 66% a month ago. That would suggest that around 4.5% of respondents have lost employment over the month to the first week of April. Those responding that they are currently working paid hours declined significantly, from 64% of respondents in March to 56% in April. This would suggest that 12.5% of respondents in March were no longer in paid work or workers being stood down in April.

Note that the ABS warned that the questions asked in this survey were about changes in the job situation of respondents; they differ from questions in the ABS Labour Force survey, so the two surveys are not directly comparable.

Nonetheless, as a rough guide, if we were to apply a similar proportion of lost jobs to total employment, it would imply around 560,000 jobs were lost in April. And the unemployment rate could approach as high as 9% as soon as April (provided the participation rate remained unchanged).

Respondents were also asked about their hours worked in April. The proportion of people working more hours than usual due to COVID-19 was 12%.

Meanwhile, 24% worked less, while 61% worked the same number of hours.

Today, the ABS will release a new weekly series estimating the change in the number of jobs and wages, which will shed further light as to the scale of job losses throughout the impact of COVID-19.

The Reserve Bank also release their board meeting minutes from earlier this month and the RBA Governor takes to the podium in the afternoon.

China: The one-year loan prime rate was set at 3.85% yesterday versus 4.05% in March, according to a statement from the People's Bank of China. It follows a series of policy-loosening steps in the past month by the central bank aimed at cushioning the economic impact of the coronavirus outbreak.

In a separate statement, the Ministry of Finance announced the new quota of special local bonds and promised they would be sold by the end of May. The money raised will mainly be used to pay for infrastructure spending.

China's top leaders said last week that the nation is facing "unprecedented" economic difficulties and signalled more stimulus was in the works.

Europe: Tension persists into Thursday's European Commission's Summit with both Spanish and Italian officials calling for larger and broader pan-regional support.

In terms of data, the adjusted trade surplus expanded from €18.2 billion in January to €25.8 billion in February.

Hong Kong: Hong Kong was cut to AA- from AA by the Fitch ratings agency, which said the city faces a major pandemic shock and real GDP will probably fall by 5% in 2020. Fitch also revised the outlook to stable from negative. Also, Hong Kong's jobless rate rose to 4.2% in March, the highest since October 2010.

New Zealand: Consumer prices rose by 0.8% in the March quarter, which was greater than the consensus estimate of a 0.4% gain. The annual rate of inflation edged up from 1.9% in the December quarter to 2.5% in the March quarter. However, annual inflation growth is likely to ease in coming quarters, reflecting the plunge in oil prices and decline in economic activity. Moreover, the NZ government has put a freeze on rent increases.

United Kingdom: House prices fell 0.2% in April, as the outbreak of COVID-19 dampened demand. Annual growth of house prices slowed from 3.5% in March to 2.1% in April.

The Bank of England's Deputy Governor Broadbent

and Chief Economist Haldane held an online presentation. Their remarks suggested they agreed with Governor Bailey (on Friday) that the Office of Budget Responsibility's scenario of a -35% contraction in Q2 GDP was plausible.

United States: The White House and Democrats rushed to finish an almost US\$500 billion deal to replenish a small business aid program, pump money into hospitals and boost nationwide virus testing, but snags remained. Disagreements over how to distribute assistance to states and what agency would oversee testing remained. Mitch McConnell set a Senate vote for Tuesday (tonight AEST) and House members were told a Wednesday vote is possible, indicating an agreement is close.

In data published overnight, the Chicago Fed National Activity Index fell to -4.19 in March, from +0.06 in February. The index is a gauge of overall economic activity. The outcome for March was worse than consensus expected of -3.00.

Today's key data and events:

AU Weekly Payroll Jobs and Wages (w/e April 4)

AU RBA Board Meeting Minutes Apr (11.30am)

AU RBA Governor Lowe Speech (3pm)

EU ZEW Expectations Apr prev -49.5 (7pm)

UK ILO Unemploy. Rate Feb exp 3.9% prev 3.9% (6.30pm)

US Existing Home Sales Mar exp -9.0% prev 6.5% (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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