

Morning Report

Thursday, 21 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,573.0	0.2%	Last		Overnight Chg			Australia		
US Dow Jones	24,575.9	1.5%	10 yr bond	99.06	0.00			90 day BBSW	0.09	-0.01
Japan Nikkei	20,595.2	0.8%	3 yr bond	99.74	0.00			2 year bond	0.26	0.00
China Shanghai	3,022.7	-0.5%	3 mth bill rate	99.86	0.00			3 year bond	0.26	0.00
German DAX	11,223.7	1.3%	SPI 200	5,604.0	36			3 year swap	0.23	0.00
UK FTSE100	6,067.2	1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.95	-0.03
Commodities (close & change)*			TWI	57.7	-	-	57.9	United States		
CRB Index	130.9	1.3	AUD/USD	0.6537	0.6616	0.6525	0.6595	3-month T Bill	0.11	-0.01
Gold	1,748.2	3.1	AUD/JPY	70.40	71.03	70.27	70.93	2 year bond	0.16	0.00
Copper	5,340.0	38.0	AUD/GBP	0.5337	0.5398	0.5330	0.5389	10 year bond	0.68	-0.01
Oil (WTI)	33.5	1.6	AUD/NZD	1.0758	1.0765	1.0714	1.0741	Other (10 year yields)		
Coal (thermal)	57.1	1.2	AUD/EUR	0.5984	0.6018	0.5966	0.6006	Germany	-0.47	0.00
Coal (coking)	112.9	-2.1	AUD/CNH	4.6536	4.6972	4.6456	4.6860	Japan	0.01	0.00
Iron Ore	93.9	-1.7	USD Index	99.6	99.6	99.0	99.2	UK	0.23	-0.02

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: Stocks rallied and oil prices rose overnight as sentiment turned positive. The Australian dollar advanced to the highest since early March. News flow was limited.

Share Markets: Most global equity indices recorded solid gains overnight. In the US, the Dow Jones closed 369 points (or 1.5%) higher and the S&P 500 rose 48.7 points (or 1.7%). It was the fourth gain in five sessions for the S&P 500, trimming its losses so far in 2020 to 8.0%. The increase was broad-based across sectors, but energy companies generally outperformed the rest of the market.

Elsewhere, the Euro Stoxx 50 rose 39.8 points (or 1.4%) while London's FTSE 100 index rose 64.9 points (or 1.1%). The Australian stock market is poised to open slightly higher this morning, according to futures, after eking out a 0.2% gain yesterday.

Interest Rates: Bond yields traded in a narrow range. Investors eyed the performance of issuances by major economies looking to finance their mammoth stimulus programmes, including the US, where the treasury department issued its first 20-year bond in decades. US\$20 billion worth of bonds were sold at a yield of 1.22% and the bid-to-cover ratio (which is a metric of demand) was 2.53.

Yields on the rest of the US curve were either unchanged or edged lower. The 10-year treasury

yield fell 1 basis point to 0.68% while the yield on the 2-year was unchanged at 0.16%.

Interest in Japan's 20-year primary debt issuance was solid while the UK government issued bonds at a negative yield for the first time ever (£3.75 billion worth of 3-year bonds were sold by the government at a yield slightly below 0.0%).

In trading yesterday, Australian bond yields remained in a narrow range. The 10-year yield ranged between 0.94% and 0.97%, closing at 0.95% while the 3-year bond closed at 0.26%.

Foreign Exchange: The US dollar weakened as investors favoured riskier currencies and the EU strengthened following the proposal of a €500 billion fund to help European regions most affected by the COVID-19 outbreak. It was one-way traffic down for the US dollar index overnight, which is currently at 99.2.

The Australian dollar advanced to a 10-week high against the US dollar, breaching US\$0.66 at one point in the session. It is currently trading at US\$0.6597 this morning.

Commodities: WTI oil futures rose for the fifth straight session, closing at US\$33.5 per barrel, the highest since March 6. A report from EIA showing a decline in US crude inventories boosted sentiment, as did general optimism about a revival in fuel demand in Europe and the US.

Metals traded higher across the board.

COVID-19: Data from Bloomberg showed a 93k increase in the number of global cases overnight, up from a 90k increase in the previous 24 hour period. Brazil has emerged as the latest hotspot for infections, with the country recording a record 16k new daily cases yesterday.

Australian cases rose by 13 in the 24 hours to 3pm yesterday while the number of confirmed deaths remains at 100. South Australia announced that it will ease restrictions faster than initially plans, allowing pubs, cafes and restaurants to reopen on June 5. They will be able to serve patrons outside from tomorrow.

Australia: Retail sales collapsed 17.9% in April, according to preliminary data released by the Australian Bureau of Statistics (ABS) yesterday. It was the largest decline ever recorded, with the series dating back to 1982. It follows an 8.5% increase in March, which was the largest increase on record. On a year ago, retailing was down 9.4%, which would also be the largest annual decline on record. The ABS has also reported that 10% of retailing purchases were made online in March.

Stockpiling witnessed over February and March has clearly stopped. The restrictions to prevent the spread of COVID-19 took full effect over April and have severely negatively impacted spending, especially for discretionary items. The measures have prevented normal operations for many retailing businesses and limited foot traffic to stores. Furthermore, the combination of rising joblessness and falling incomes have engendered caution around spending.

While an easing of restrictions will bring customers back to an extent, the loss of incomes and employment is also likely to prevent consumers from lifting spending.

Further weakness in household spending is expected over coming months. Indeed, the Reserve Bank has said they expect household spending to fall by 15% in the June quarter. Yesterday's data suggests that a larger decline is possible.

Food retailing, which rose sharply in March, led the decline in April, falling 17.1%. However, sales in food retailing were still 5% higher than a year ago.

Spending in cafes, restaurants & takeaway food services and clothing, footwear & personal accessories continued to weaken. Turnover in these sectors was around half the levels of a year ago. Separate surveys have indicated that the hospitality sector has been one of the hardest hit sectors due

to the social-distancing restrictions.

Skilled vacancies fell by 16.4% in April, after a downwardly revised fall of 13.6% in March. The falls reflect the rise in the number of unemployed due to the impact of COVID-19.

Europe: Annual inflation across the euro zone was revised lower to 0.3% in April, the lowest in nearly four years. Energy prices fell 9.7% over the year, as oil price declines resulted in cheaper fuel costs. Excluding energy, inflation rose to 1.4% in April from 1.3% in March, driven by higher supermarket prices.

Japan: Core machinery orders fell by 0.4% in March and by 0.7% in the year to March. The result was better than expected by consensus. Core machinery orders are a leading indicator of business investment. While the figures indicated more resilience than expected, orders remained below their level a year earlier for the fourth straight month, the longest stretch since the global financial crisis.

New Zealand: Food prices rose by 1.0% in April, after a rise of 0.7% in the previous month.

United Kingdom: Bank of England (BOE) governor Andrew Baily said that the central bank is reviewing negative interest rates. The governor said "We're keeping the tools under active review in the current situation".

Economic data released showed that consumer price inflation fell to an annual rate of 0.8% in April from 1.5% in March, the biggest decline since 2008.

United States: Minutes from the latest FOMC meeting show that members saw the pandemic posing "an extraordinary amount of uncertainty" to the economic outlook and to financial stability. Some on the committee suggested that forward guidance could be made more explicit by adopting an outcome-based approach or by specifying a time duration on key policies. A survey of participants showed that respondents "attached almost no probability to the FOMC implementing negative policy rates".

Today's key data and events:

JN Trade Apr exp -¥503.1bn prev ¥5.4bn (9:50am)
JN Jibun PMI for Composite, Services & Mfg Apr (10:30am)
AU RBA Governor Lowe Takes Part in a Panel (12:30pm)
NZ Credit Card Spending Apr prev -9.1% (1pm)
EZ Markit PMI for Composite, Services & Mfg May (6pm)
UK Markit PMI for Composite, Services & Mfg May (8pm)
UK CBI Trends Total Orders exp -56 prev -50 (8pm)
US Philad. Fed Index May exp -40.0 prev -56.6 (10:30pm)
US Initial Jobless Claims w/e May 9 exp 23.5mn prev 22.8mn (10:30pm)
US Markit Mfg PMI May exp 39.5 prev 36.1 (11:45pm)
US Markit Services PMI May exp 32.3 prev 26.7 (11:45pm)
US Markit Composite PMI May prev 27.0 (11:45pm)
US Leading Index May exp -5.4% prev -6.7% (12am)
US Existing Home Sales Apr -19.9% prev -8.5% (12am)
US Federal Reserve's Williams Takes Part in Panel (12am)
US Federal Reserve's Clarida Speech (3am)
US Federal Reserve's Powell Opening Remarks (4:30am)

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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