Morning Report

bankSA

Wednesday, 22 April 2020

Equities (close & % change)		
S&P/ASX 200	5,221.3	-2.5%
US Dow Jones	23,018.9	-2.7%
Japan Nikkei	19,280.8	-2.0%
China Shanghai	2,962.8	-0.9%
German DAX	10,249.9	-4.0%
UK FTSE100	5,641.0	-3.0%

Commodities (close & change)*		
CRB Index	106.3	-12.5
Gold	1,686.2	-9.5
Copper	5,167.8	-32.8
Oil (WTI)	11.6	-8.9
Coal (thermal)	61.3	-0.3
Coal (coking)	134.6	-0.5
Iron Ore	84.9	0.4

Sydney Futures Exchange (close & change)	Last	Overnight Chg
10 yr bond	99.17	0.02
3 yr bond	99.74	0.00
3 mth bill rate	99.79	0.00
SPI 200	5,090.0	-109

FX Last 24 hrs	Open	High	Low	Current
TWI	56.2	-	-	56.0
AUD/USD	0.6334	0.6347	0.6254	0.6283
AUD/JPY	67.90	68.36	67.29	67.69
AUD/GBP	0.5090	0.5132	0.5068	0.5109
AUD/NZD	1.0494	1.0552	1.0484	1.0538
AUD/EUR	0.5829	0.5842	0.5773	0.5786
AUD/CNH	4.4932	4.4981	4.4456	4.4631
USD Index	99.7	100.5	99.9	100.2

Interest rates (close & change)		
Australia		
90 day BBSW	0.13	0.00
2 year bond	0.23	0.00
3 year bond	0.26	0.00
3 year swap	0.32	0.00
10 year bond	0.86	0.02
United States		
3-month T Bill	0.09	-0.02
2 year bond	0.20	0.00
10 year bond	0.57	-0.04
Other (10 year yields)		
Germany	-0.48	-0.03
Japan	0.02	0.00
UK	0.30	-0.04

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: The historic oil rout rattled markets for a second day. The price slump spilled over from the expiring May futures contract to the June contract, which plunged 43.4%.

Concerns in the oil market spread to equities and bonds, despite news of an agreement reached between congress and the White House for an additional $484 billion in stimulus.

Share Markets: Equity markets were a sea of red overnight. The collapse in oil prices sparked concerns of a deeper economic downturn than investors had previously priced in.

In the US, shares in technology shares were the hardest hit. The S&P 500 fell 3.1% compared with a 2.7% in the Dow Jones and a 3.5% fall in the NASDAQ. The Euro Stoxx 50 fell 4.1%

Interest Rates: Bond yields sunk as concerns over global economic growth heightened amid the oil price turmoil. The US 10-year treasury yield fell 4 basis points to 0.56% while the 3-month treasury bill fell 2 basis points to 0.08%.

Australian bond yields were little changed yesterday following the release of the RBA minutes for the April 7 meeting and a speech by Governor Philip Lowe. The 3-year bond yield is currently at 0.26% and the 90-day bank bill swap rate is unchanged at 0.13%.

Foreign Exchange: The US dollar index edged above 100 to 100.20 as investors sought safety. Currencies tied to oil, such as the Norwegian krone and Canadian dollar, generally weakened in range-bound trading. The euro traded in a relatively narrow range against the US dollar and is currently broadly unchanged from yesterday at US$1.086.

The Australian dollar weakened throughout the day yesterday but trended higher in the latter half of the overnight session. It is currently trading at US$0.6286 this morning.

Commodities: The wild ride in oil markets continued. The May contract for WTI crude oil was trading in its last session before it was due to expire. It returned to positive territory on light volume, however, the June contract (the incoming active contract) plunged US$8.9 per barrel to US$11.6. Three circuit breakers were triggered in trading on the New York Mercantile Exchange along the way, but it didn't stop the slide.

Oil prices have been crunched by a simultaneous plunge in demand due to the COVID-19 pandemic and a supply glut caused by a strategic increase in production from Saudi Arabia and Russia as the two countries engaged in a price war. OPEC+ has since agreed to a historic cut to crude production, but it has proven too little, too late.

COVID-19: The world tally of COVID-19 cases compiled by Bloomberg rose to 2,568,779 including 176,071 deaths globally overnight. US officials suggested that the cases had peaked in New York, but that it was too early to call a peak in many other states. Despite contrary advice from some health experts, governors of about half a dozen US states are pushing ahead with plans to reopen their economies.

In Australia, the Department of Health have reported 6,645 confirmed cases and 71 deaths as of 3pm yesterday. Of the total number of confirmed cases, 4,291 have been reported as recovered.

Australia: The Reserve Bank Governor, Phillip Lowe, delivered a speech yesterday, giving an update on the immediate outlook for the economy and the nature and speed of the recovery. Lowe warned the next few months will be "difficult" for the Australian economy.

The unemployment rate is expected to reach around 10% by June. Total hours worked will give a more important gauge than the unemployment rate and it is expected to drop by 20% over the first half of this year.

Year-ended inflation will turn negative in June, which would be the first time since the early 1960s that the price level has fallen over a full year.

The economy will recover once the virus is satisfactorily contained. The timing and pace of this recovery remains dependant on how long it takes to effectively contain the virus. The exact profile of the recovery also relies on easing the uncertainty felt by people about the future. The longer we take to contain the virus, the more pronounced the downturn and the greater the loss in jobs and incomes.

Regardless of the timing of the recovery, Lowe says it will not be a quick return to business as usual. Rather, "the twin health and economic emergencies that we are experiencing now will cast a shadow over our economy for some time to come".

The minutes of the Reserve Bank (RBA) meeting earlier this month were also released yesterday.

The RBA suggests that GDP could "fall significantly in the June quarter and remain subdued in the September quarter".

Given that the source of the current shock wasn't from the financial system itself, and that regulatory reforms had taken place after the GFC, the financial system was "well placed to mitigate the impact of the pandemic".

The RBA has provided significant amounts of liquidity to the financial system, to the point where exchange settlement balances with the RBA have risen significantly. Consequently, there hasn't been much need for borrowing at the overnight cash rate, which has effectively fallen to 0.15% (below the RBA's cash rate target of 0.25%). High levels of liquidity have also been reflected in the 3-month bank bill swap rate (BBSW), also falling to levels below the cash rate. These low levels of rates are as a result of the RBA's actions aimed at keeping the cost of borrowing low across the economy.

There were concerns raised about the commercial property market, in particular within retail which was facing challenges before the COVID-19 outbreak. The RBA notes that "the risks in commercial property markets warranted close monitoring".

The Australian Bureau of Statistics (ABS) released the first edition of a new fortnightly series of statistics covering weekly wage and employment data submitted to the Australian Tax Office (ATO) yesterday.

The most recent available data show a marked drop in the number of employees and wages paid in the two weeks since Australia recorded its 100th coronavirus case and strict social distancing measures were introduced.

Employment fell by 6.0% in the two weeks to April 4, which included a 5.5% drop over the most recent week.

Wages fell by a greater amount than employment, reflecting reduced hours and some employers standing down staff. Wages fell 6.7% in the two weeks to April 4.

In March, the separate Labour Force Survey showed that there were around 13 million Australians employed. A 6% decline in employment would result in approximately 780k job losses.

Europe: The ZEW survey of German investors showed a sharp decline in current conditions in April to -91.5 from -43.1 in March. However, the expectations index rose to 28.2 from -49.5, suggesting that investors are expecting a recovery in economic growth later in the year.

United Kingdom: There was news of a 1.5 million rise in the number of welfare claimants, underscoring the likelihood of a sharp rise in unemployment in the coming months.

United States: The US senate approved US$484 billion in additional coronavirus relief measures overnight, and the bill is expected to pass through the House of Representatives later in the week. It was the fourth set of measures enacted, and brings the total level of stimulus to almost US$3 trillion.

The new bill increases the level of funding available for lending to small businesses by US$321 billion, as well as US$60 billion for emergency loans. There was US$75 billion for extra funding for hospitals and US$25 billion for coronavirus testing.

Separate data released showed existing home sales fell 9% in March as the coronavirus spread began to take its toll on the property market.

Today's key data and events:

AU WBC-MI Leading Index Mar prev -0.43% (10:30am)

AU Skilled Vacancies Mar prev -0.2% (11am)

AU Preliminary Retail Sales Mar (11:30am)

UK CPI Mar exp 0.0% prev 0.4% (4pm)

UK House Price Index Feb y/y exp 1.6% prev 1.3% (6:30pm)

US FHFA House Prices Feb exp 0.3% prev 0.3% (11pm)

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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