

## Morning Report

Friday, 22 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,550.4	-0.4%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	24,474.1	-0.4%	10 yr bond	99.09		0.00		90 day BBSW	0.09	0.00
Japan Nikkei	20,552.3	-0.2%	3 yr bond	99.74		-0.01		2 year bond	0.25	-0.01
China Shanghai	3,006.1	-0.5%	3 mth bill rate	99.86		0.00		3 year bond	0.25	-0.01
German DAX	11,065.9	-1.4%	SPI 200	5,537.0		-7		3 year swap	0.23	0.00
UK FTSE100	6,015.3	-0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.91	-0.03
<b>Commodities (close &amp; change)*</b>			TWI	57.9	-	-	57.9	<b>United States</b>		
CRB Index	130.5	-0.4	AUD/USD	0.6595	0.6598	0.6549	0.6560	3-month T Bill	0.11	-0.01
Gold	1,727.0	-21.2	AUD/JPY	70.93	71.09	70.50	70.63	2 year bond	0.17	0.00
Copper	5,376.3	-54.5	AUD/GBP	0.5389	0.5393	0.5360	0.5367	10 year bond	0.67	-0.01
Oil (WTI)	33.8	-0.1	AUD/NZD	1.0741	1.0751	1.0703	1.0721	<b>Other (10 year yields)</b>		
Coal (thermal)	57.1	0.0	AUD/EUR	0.6006	0.6009	0.5976	0.5993	Germany	-0.50	-0.03
Coal (coking)	112.8	-0.1	AUD/CNH	4.6860	4.6970	4.6604	4.6800	Japan	0.00	-0.01
Iron Ore	95.6	1.7	USD Index	99.2	99.5	99.0	99.4	UK	0.17	-0.06

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:** Tensions between China and US became a focal point for markets. Trump has warned that the US would react “very strongly” after China moved to impose a new national security law in Hong Kong. Risk aversion weighed on share markets. The Australian dollar is also down.

**Share Markets:** Share markets weakened overnight on the more risk averse mood. The Dow fell 0.4% while the S&P500 dropped 0.8%.

**Interest Rates:** Yields on US treasuries were mostly little changed, and fell slightly at the longer end of the curve. The 20-year yield was just 2 basis points lower (prices were higher), while the 30-year yield was down 1 basis point. The muted reaction in yields suggests that the market has absorbed the increased supply following a \$20 billion auction on Wednesday.

**Foreign Exchange:** The US dollar index edged higher, in line with the risk averse theme. Euro and GBP conversely weakened. Sterling was also under downward pressure after British government bond yields turned negative for the first time and Bank of England Governor Andrew Bailey indicated his position on negative rates had changed, and did not rule them out. After touching US cents yesterday, the Australian dollar did not hold onto those gains for long. The combination of weaker risk appetite and some caution around current levels resulted in

the AUD retreating to 65.65 US cents this morning.

**Commodities:** Brent oil prices defied the risk-off mood in other markets, lifting on a drawdown on US inventories.

**COVID-19:** New cases as of May 20 stood at 57,804, after topping 100,000 the previous day according to the World Health Organisation. Total cases stood at just under 4.8 million, although other sources suggest that total cases worldwide have topped 5 million.

In Australia, there were just 6 new cases in the 24 hours to 3pm yesterday. Total confirmed cases stood at 7081. There are a total of 409 active cases across the country.

**Australia:** Speaking on a panel with fellow regulators from APRA and ASIC, Reserve Bank (RBA) governor Philip Lowe reiterated that negative interest rates were unlikely in Australia. He said that the large fiscal and monetary stimulus packages, as well as support from the banking industry, were helping to “build a bridge” to the recovery period. When asked when monetary loosening would be unwound, he referred to comments he has made previously that the recovery in consumer confidence and the economy will be determined by medical response to the health crisis. Both Philip Lowe and APRA chairman Wayne Byres said that they expected capital buffers in the banking system

will fall over the coming year.

**Japan:** Exports and imports both plunged in April. Exports fell by an annual 21.9% compared with an 11.7% fall in March and imports were down 7.2% compared with a 5.0% decline previously. The trade balance swung to a deficit of -¥930.4bn in April. The large decline reflects the standstill in global trade amid the COVID-19 pandemic and an associated reduction in demand following containment practises.

Business surveys showed that confidence remained weak among manufacturing and service sector companies in May. The Jibun manufacturing PMI fell to 38.3 from 41.9 in April while the services PMI fell to 25.3 in May from 21.5 previously.

**New Zealand:** Card spending plunged 41.3% in a single month in April, extending the 9.1% drop recorded in March. Sales were almost half of their value recorded in April 2019 (-49.4%). Many retailers were mandated to close under social distancing requirements in April, limiting the ability of consumers to spend.

**United Kingdom:** There was improvement in a range of activity indices from Markit in May. The manufacturing index lifted from 32.6 to 40.6 in the month, while the services index rose from 13.4 to 27.8. The composite index edged up from 13.8 to 28.9, however the improvement comes from a very low level and all indices remain significantly below 50 and signalling contraction. Separately, a report from CBI pointed to protracted weakness in the factory sector. A measure of orders fell from -56 in April to -62 in May - the weakest since 1981.

**United States:** Initial jobless claims continued to fall, standing at 2.4 million for the week ending May 16. It was down from 2.7 million in the previous week, and the lowest since the week ending March 13, before much of the country went into lockdown. Nonetheless, the amount of claims remains extremely high and point to further large scale job losses. A total 38.6 million have filed for unemployment benefits since March 13.

Existing home sales fell 17.8% in April, the largest fall since 2010, reflecting the impact of measures to stem COVID-19. The loss of jobs and uncertain outlook are hitting housing demand, but prices increased. Inventory remained low at 4.1 month's supply.

The leading index fell 4.4% in April,, consistent with further weakness in economic activity, although the rate of decline was less than the 7.4% fall in March.

New York Federal Reserve President John Williams

highlighted uncertainty with regards to the outlook and in particular, "the shape or timescale of the recovery". In regards to the unemployment rate which has spiked to 14.7% in April, Williams said that it was "sure to get worse before it gets better". Williams also added to the debate on negative interest rates stating that it was looked at "very carefully" and that "the view is that negative interest rates are not the right tool to be used right now".

Fed Vice Chair also spoke, and said that "the easing of financial conditions is buying some time until the economy can begin to recover" and also highlighted uncertainty due to a wide range of scenarios. However, Clarida said that growth would return and the unemployment rate would start fall in the second half of this year, Clarida raised that yield curve control could be a "natural complement" to possible Fed tools.

#### Today's key data and events:

NZ Retail Sales Ex Inflation Q1 exp -1.5% prev 0.7% (8:45am)

JN CPI Apr y/y exp 0.2% prev 0.4% (9:30am)

JN BOJ Policy Balance Rate prev -0.10% (10am)

JN BOJ 10-Year Yield Target prev 0.0% (10am)

UK Retail Sales Ex Fuel Apr exp -15.0% prev -3.7% (4pm)

UK PSNB ex Banking exp £42.5bn prev £3.1bn (4pm)

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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