

Morning Report

Thursday, 23 April 2020

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|-------|-------|
| S&P/ASX 200 | 5,221.2 | 0.0% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 23,475.8 | 2.0% | 10 yr bond | 99.14 | | | | 90 day BBSW | 0.12 | -0.01 |
| Japan Nikkei | 19,138.0 | -0.7% | 3 yr bond | 99.74 | | | | 2 year bond | 0.23 | -0.01 |
| China Shanghai | 2,980.7 | 0.6% | 3 mth bill rate | 99.81 | | | | 3 year bond | 0.26 | -0.01 |
| German DAX | 10,415.0 | 1.6% | SPI 200 | 5,286.0 | | | | 3 year swap | 0.33 | 0.00 |
| UK FTSE100 | 5,770.6 | 2.3% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 0.84 | -0.02 |
| Commodities (close & change)* | | | TWI | 56.0 | - | - | 56.1 | United States | | |
| CRB Index | 111.1 | 4.8 | AUD/USD | 0.6283 | 0.6351 | 0.6277 | 0.6322 | 3-month T Bill | 0.09 | -0.01 |
| Gold | 1,714.1 | 27.9 | AUD/JPY | 67.69 | 68.48 | 67.63 | 68.11 | 2 year bond | 0.21 | 0.01 |
| Copper | 5,117.0 | 107.5 | AUD/GBP | 0.5109 | 0.5163 | 0.5104 | 0.5125 | 10 year bond | 0.62 | 0.05 |
| Oil (WTI) | 13.8 | 2.2 | AUD/NZD | 1.0538 | 1.0629 | 1.0532 | 1.0615 | Other (10 year yields) | | |
| Coal (thermal) | 61.2 | -0.1 | AUD/EUR | 0.5786 | 0.5850 | 0.5784 | 0.5841 | Germany | -0.41 | 0.07 |
| Coal (coking) | 134.5 | -0.1 | AUD/CNH | 4.4631 | 4.5060 | 4.4584 | 4.4887 | Japan | 0.00 | -0.02 |
| Iron Ore | 84.3 | 0.6 | USD Index | 100.2 | 100.5 | 99.9 | 100.3 | UK | 0.33 | 0.03 |

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: The oil market continued to hold the attention of investors. Oil prices recovered shrugged off bearish energy data and recovered some ground. Equity markets were also higher, as optimism about the eventual reopening of the US economy rose. US Secretary of the Treasury, Steven Mnuchin, said overnight he anticipates most of the US economy will restart by the end of August.

However, geopolitical tensions between the US and Iran heated up overnight.

Share Markets: US share market indexes halted a two-day slide as investors digested the latest round of corporate earnings and optimism about the eventual reopening of the US economy increased. The S&P 500 Index closed up 63 points (or +2.3%), rebounding from the worst sell-off in three weeks. The Dow Jones ended 457 points higher (or +2.0%). Yesterday the ASX 200 share market index finished the session unchanged. The ASX 200 share market is set to follow the US share market higher today.

Interest Rates: The improvement in risk sentiment caused US government bonds to sell off overnight (i.e. yields rise). The US 2-year treasury yield rose 1 basis point to 0 from 0.19% to 0.21% and the US 10-year yield lifted by 5 basis points to 0.62%.

Australian 3-year government bond yields remained stuck between 0.26% and 0.27%, while the

Australian 10-year yield rose from 0.83% to 0.88%.

Foreign Exchange: The US dollar index was modestly firmer in trade overnight. EUR/USD hit a two-week low of 1.0803 and USD/JPY jumped from 107.50 to 107.94. The Australian dollar gathered upward momentum in European trade, rising from a low of 0.6295 to a high of 0.6351, but then lost these gains to fall towards the 0.6300 handle in New York trade as the US dollar appreciated. The AUD/USD exchange rate is currently trading around 0.6325 and remains within the trading band of 0.6250-0.6400 it has been in for the past week.

Commodities: Oil recovered some ground overnight, bucking eight trading days of frenzied selling. The West Texas Intermediate futures oil quote for the June contract rose by 19.1% overnight to US\$13.78 a barrel. The oil market shrugged off a bearish report from the Energy Information Administration (EIA) showing US crude inventories rose a higher-than-expected 15.0 million barrels. This EIA report highlighted the severity of the storage problem. The EIA's Dr Fatih Birol encouraged OPEC+ to cut sooner and deeper.

Copper, gold and iron ore prices rose overnight.

COVID-19: Outbreak trends in the worst-hit US State, New York, continued to head in the right direction. Deaths in New York due to COVID-19 are

at the lowest rate since early April.

In Europe, Spain's parliament backed the Prime Minister's request to extend a state of emergency to May 9. Meanwhile, Italy posted the highest number of new cases in four days.

Singapore recorded its third straight day of new daily cases of over 1,000. The extending of lockdown restrictions in Singapore (as cases lifted) highlights the prolonged impact that COVID-19 may have even if the most stringent of lockdown restrictions are being eased.

In Australia, the number of new cases in the past 24 hours was just 4 with 3 new deaths.

Australia: Retail sales recorded their largest ever monthly percentage increase in March, according to preliminary data released by the Australian Bureau of Statistics (ABS). Retail sales increased 8.2% in March compared with a rise of 0.5% in February. The monthly increase was the highest since the series began in 1982, beating the 8.1% increase recorded in June 2000 when households brought forward purchases ahead of the GST. Sales related to stockpiling and working from home led the surge.

Food retailing rose 23.5% in March while the supermarket sub-group rose 22.4%. The ABS reported that monthly turnover doubled for toilet paper, flour and pasta while canned food, medicinal and cleaning products rose by 50%.

There was a marked decline in spending in the cafes, restaurants & takeaway sector. Clothing & department store sales also fell.

The preliminary survey covers approximately 80% of retailing. The full series, including further industry detail and potential revisions, will be released on May 6.

Separate data released yesterday showed skilled vacancies fell 5.3% in March after a downwardly revised 4.5% fall in February, according to the Department of Jobs and Small Business.

Meanwhile, the MI Leading Index fell 0.84% to 96.4 in March, the most negative it has been since the GFC. The sharp fall points to a deepening economic contraction in the coming months.

Europe: The European Central Bank (ECB) will accept some junk-rated debt as collateral for loans to banks, in a move that aims to shield the euro area's most vulnerable economies as they face the risk of credit downgrades. There's concern that some government and corporate debt is facing downgrades because of the cost of fighting the pandemic. The central bank will take bonds as long

as they were rated at least BBB- on April 7.

United Kingdom: Consumer prices were unchanged in March. The annual rate of growth in prices eased from 1.7% to 1.5%. Lower fuel costs were behind the weaker result. The more recent weakness in oil prices and the drop off in demand due to lockdown measures are likely to put further downward pressure on inflation.

House price growth eased from an annual rate of 1.5% in January to 1.1% in February, suggesting some softening in demand before the escalation in the COVID-19 crisis.

United States: Housing market activity unsurprisingly weakened over March. Existing home sales slumped 8.5%, which is the largest monthly decline since 2015. The shutdown to contain the spread of COVID-19 took place around the middle of the month. In other data, FHFA house prices rose 0.7% in February, suggesting that demand was on a reasonable footing prior to shutdowns taking place.

US Secretary of the Treasury, Steven Mnuchin, said he anticipates most of the US economy will restart by the end of August.

Fresh geopolitical tensions even amid COVID-19 are emerging. US President Trump told the US Navy to shoot down and destroy any and all Iranian gunboats harassing US ships. It comes after 11 gunboats from Iran's Islamic Revolutionary Guard Corps crossed the bows and sterns of American ships at close range last week. An Iranian defence official responded by saying the US should withdraw its forces from the Middle East.

Today's key data and events:

JN Jibun Bank Mfg PMI April P prev 44.8 (10:30am)
 NZ Credit Card Spending Mar prev -0.6% (1pm)
 EZ Markit Mfg PMI April P exp 38.0 prev 44.5 (6pm)
 EZ Markit Services PMI April P exp 22.8 prev 26.4 (6pm)
 US Initial Jobless Claims w/e Apr 18 exp 4,500k prev 5,245k (10:30pm)
 US Markit Mfg PMI April P exp 35.0 prev 49.5 (11:45pm)
 US Markit Serv. PMI April P exp 30.0 prev 39.8 (11:45pm)
 US New Home Sales Mar exp -16.3% prev -4.4% (12am)

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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