

# Morning Report

Thursday, 25 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,965.7	0.2%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	25,445.9	-2.7%	10 yr bond	99.09		0.03		90 day BBSW	0.10	0.00
Japan Nikkei	22,534.3	-0.1%	3 yr bond	99.71		0.00		2 year bond	0.25	-0.01
China Shanghai	3,123.1	0.3%	3 mth bill rate	99.86		0.00		3 year bond	0.26	0.00
German DAX	12,093.9	-3.4%	SPI 200	5,837.0		-92		3 year swap	0.24	0.00
UK FTSE100	6,123.7	-3.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	0.02
<b>Commodities (close &amp; change)*</b>			TWI	60.2	-	-	60.5	<b>United States</b>		
CRB Index	135.2	-3.3	AUD/USD	0.6928	0.6962	0.6863	0.6870	3-month T Bill	0.14	-0.01
Gold	1,761.2	-7.2	AUD/JPY	73.78	74.17	73.31	73.54	2 year bond	0.19	0.00
Copper	5,861.0	-36.0	AUD/GBP	0.5537	0.5554	0.5516	0.5530	10 year bond	0.68	-0.03
Oil (WTI)	38.0	-2.4	AUD/NZD	1.0673	1.0756	1.0671	1.0716	<b>Other (10 year yields)</b>		
Coal (thermal)	52.7	-0.2	AUD/EUR	0.6127	0.6148	0.6092	0.6105	Germany	-0.44	-0.03
Coal (coking)	120.9	0.5	AUD/CNH	4.8921	4.9091	4.8555	4.8649	Japan	0.02	0.00
Iron Ore	101.5	2.1	USD Index	96.7	97.2	96.6	97.2	UK	0.19	-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:** Investors focussed on rising COVID-19 infections in some US states and escalating US-EU trade tensions. Furthermore, investor sentiment was hurt by news the International Monetary Fund (IMF) slashed its outlook for the world economy. The IMF is projecting a deeper recession and slower recovery than it expected just two months ago. Share markets and bond yields fell.

**Share Markets:** US share markets tumbled on rising investor anxiety over the resurgence in virus cases in multiple states and its economic impact. The Dow Jones fell 710 points (or -2.7%) and S&P 500 fell 81 points (or -2.6%).

**Interest Rates:** US 2-year treasury yields were unchanged at the close at 0.19% and the 10-year yield fell 3 basis points to 0.68%.

Australian 3-year government bond yields ranged between 0.29% and 0.30%, while the 10-year yield fell from 0.95% to 0.92%.

**Foreign Exchange:** The Australian dollar was weaker in overnight trade, falling from an overnight high of 0.6975 to around 0.6805 where it is currently trading. In the past 2 weeks, the AUD/USD exchange rate has been stuck in a trading band of 0.6770-0.6970 after its strong appreciation from its COVID-19 low of 0.5510 on March 19.

**Commodities:** Oil tumbled as US crude inventory levels hit a fresh record. Meanwhile, more than a

third of shale explorers polled by the Dallas Federal Reserve say they will restart most of their idled output by the end of this month, ending curtailments made during the price crash.

**COVID-19:** The Australian Defence Force is sending 1,000 additional officers to Victoria to assist with the state's rising COVID-19 infections, as Victoria recorded the first Australian death in a month. Victoria recorded another 20 new cases yesterday, bringing the number of community transmissions to 241.

In the US, Florida and California both set daily records for new cases, while Houston said its intensive-care unit beds are almost full. New York, New Jersey and Connecticut now require visitors from virus hot spots to quarantine for 14 days.

The World Health Organisation (WHO) warned cases in Latin America have not yet peaked even after rising 25% to 50% within the past week in some countries.

**Australia:** Skilled vacancies fell 8.7% in May, following an upwardly revised 9.7% fall in April. The improvement is a positive for the labour market, but the number of vacancies remains very low. The Department of Jobs and Small Businesses said that there were 91,385 skilled vacancies in May, compared with 155,323 in February, before the COVID-19 pandemic intensified globally.

**New Zealand:** The Reserve Bank of New Zealand (RBNZ) left its monetary policy settings unchanged, as expected. The overnight cash rate remains at 0.25% and its asset purchases will remain at \$60 billion.

The RBNZ noted that the lifting of restrictions aimed at slowing the spread of COVID-19 came sooner than anticipated, and that this was stoking economic activity. However, it was sceptical that the improvement would continue unchecked. Members noted that the recent increase in the NZD exchange rate would dampen inflation and that it was open to further monetary policy easing, if required.

**United States:** New home sales rose 16.6% in May, after a fall of 5.2% in April and three months of declines. The May rate is nearly 13% higher than the same month on a year ago. Low mortgage rates after the economy has reopened from lockdown has helped drive the spike.

The Richmond Federal manufacturing index dropped to zero in June, from minus 27 in May. More firms reported increases in new orders, but also continued declines in employment.

The Chicago Federal Reserve President Charles Evans warned that recurring outbreaks will probably hurt US growth and keep unemployment levels elevated for some time to come. Intermittent spikes of infections "might be made worse by the faster-than-expected reopenings." There is "enormous" uncertainty surrounding economic forecasts, but he added the central bank may resume "more normal operations" by late 2022.

The US is weighing new tariffs on US\$3.1 billion of exports from France, Germany, Spain and the UK, risking igniting a wider transatlantic trade fight later this summer. The US Trade Representative wants to impose new tariffs on olives, beer, gin and trucks, while increasing duties on aircraft, cheese and yogurt. There will be a month-long public comment period ending July 26.

**World:** The International Monetary Fund (IMF) slashed its outlook for the world economy, projecting a deeper recession and slower recovery than it expected just two months ago. Global GDP will shrink 4.9% this year versus 3.0% seen in April. For 2021, it forecast growth of 5.4%, down from 5.8%. US GDP may drop 8% in 2020, compared with April's 5.9% forecast. The euro area may shrink 10.2%. China will still manage to expand 1%, supported by policy stimulus.

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

NZ Trade May exp \$1290m prev \$1267m (8:45am)  
 AU Job Vacancies May prev -0.1 (11:30am)  
 JN Activity Index Apr exp -6.5% prev -3.8% (2:30pm)  
 UK CBI Retailing Jun exp -38 prev -50 (8pm)  
 EZ ECB June Monetary Policy Meeting Account (9:30pm)  
 US Wholesale Inventories May P exp 0.4% prev 0.3% (10:30pm)  
 US Durable Goods Orders May P exp 10.1% prev -17.7% (10:30pm)  
 US GDP Annualised Q1 F exp -5% prev -5% (10:30pm)  
 US Core PCE Q/Q Q1 F exp 1.6% prev 1.6% (10:30pm)  
 US Initial Jobless Claims w/e 1 Jun exp 1335k prev 1508k (10:30pm)  
 US Federal Reserve's Kaplan Speaks (11:30pm)  
 US Kansas Fed Mfg Activity Jun exp -7 prev -19 (1am)  
 US Federal Reserve's Bostic Speaks (1am)

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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