

Morning Report

Monday, 25 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,497.0	-1.0%	Last		Overnight Chg			Australia		
US Dow Jones	24,465.2	0.0%	10 yr bond	99.14	0.00			90 day BBSW	0.10	0.01
Japan Nikkei	20,388.2	-0.8%	3 yr bond	99.74	-0.01			2 year bond	0.26	0.00
China Shanghai	2,949.3	-1.9%	3 mth bill rate	99.83	-0.01			3 year bond	0.25	0.00
German DAX	11,073.9	0.1%	SPI 200	5,574.0	65			3 year swap	0.26	0.03
UK FTSE100	5,993.3	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	-0.05
Commodities (close & change)*			TWI	57.9	-	-	57.9	United States		
CRB Index	129.5	-1.0	AUD/USD	0.6560	0.6572	0.6493	0.6534	3-month T Bill	0.11	0.00
Gold	1,734.7	-13.5	AUD/JPY	70.63	70.80	69.94	70.27	2 year bond	0.17	0.00
Copper	5,272.8	-103.5	AUD/GBP	0.5367	0.5375	0.5342	0.5366	10 year bond	0.66	-0.01
Oil (WTI)	33.3	-0.7	AUD/NZD	1.0721	1.0734	1.0668	1.0718	Other (10 year yields)		
Coal (thermal)	56.6	-0.2	AUD/EUR	0.5993	0.6001	0.5965	0.5994	Germany	-0.49	0.01
Coal (coking)	112.5	-0.3	AUD/CNH	4.6811	4.6960	4.6557	4.6725	Japan	0.00	0.00
Iron Ore	94.8	-0.8	USD Index	99.4	99.9	99.4	99.8	UK	0.17	0.00

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: Trading was quiet ahead of a long weekend in the US and UK. Equities traded flat. US-China tensions and renewed unrest in Hong Kong dominated headlines.

Share Markets: Protests in Hong Kong dampened investor sentiment. The ASX 200 closed 1.0% lower on Friday and the negative mood extended to the US open, with major indices opening in negative territory. However, losses were trimmed as the session progressed and most global bourses closed flat or slightly up.

The Dow Jones was unchanged while the S&P 500 closed up 0.2%. Volumes were lower ahead of Memorial Day on Monday in the US. Defensive stocks generally outperformed and shares in energy and materials companies were under selling pressure.

Interest Rates: US treasury yields closed relatively unchanged in range-bound trading. The 2-year yield fell to a low of 0.15% during the session as Hong Kong tensions escalated but closed at its session high of 0.17%, unchanged from Thursday. The US 10-year treasury yield fell 1 basis point to 0.66%.

The Australian 10-year bond yield fell 5 basis points to 0.87% while the 3-year bond was unchanged at 0.25%. The 90-day bank-bill swap rate edged up by 1 basis point to 0.10%.

Foreign Exchange: Demand for the US dollar was

supported by safe-haven buying. The US dollar index rose to 99.8, as riskier currencies in the basket fell. The Japanese yen performed strongly, but pared gains as the session wore on. It is currently trading at ¥107.60 this morning.

The Australian dollar fell throughout the day on Friday, but stabilised in the afternoon. It is currently trading at US\$0.6533 this morning.

Commodities: Oil ended a 6-day winning streak. A relatively mild US\$0.7 per barrel fall in WTI crude futures belied a steep fall intra-session of more than US\$3 per barrel at one point.

COVID-19: Data compiled by Bloomberg, which is based on Johns Hopkins University data, showed worldwide cases topping 5.4 million on Sunday. The daily increase was just under 100k. Total recorded deaths rose 3,921 to 343,721.

Australian cases rose by 4 in the 24 hours to 3pm Sunday, according to the Department of Health. The total number of confirmed fatalities stands at 102.

Australia: No major data to report, but Treasury revised its estimate for the cost of its JobKeeper package down from \$130 billion to \$70 billion and is now estimating 3.5 million will be eligible for the payment instead of 6 million.

Fitch Ratings downgraded its outlook on Australia's AAA rating from stable to negative, citing the impact from the coronavirus on the economy and

public finances. It follows a similar move from S&P last month with a recession expected and “a substantial deterioration of the government’s fiscal headroom.”

China: On Friday, the Chinese government dropped a target for GDP this year for the first time since the goal was introduced in 1990. The government however, set a target to create over 9 million urban jobs this year. The Government also pledged to provide more fiscal and monetary stimulus.

Protests in Hong Kong turned violent when protestors clashed with riot police over a new national security law proposed by Beijing that would erode Hong Kong’s autonomy.

Tensions flared between the US and China once again. Foreign Minister Wang Yi expressed concern that the US was interfering in internal affairs by threatening to impose sanctions if China implements the new national security law.

Japan: National inflation edged down from an annual rate of 0.4% to 0.1%, and core inflation (excluding fresh food) turned negative in April, at -0.2%. It was the first deflation reading in core consumer prices since 2016.

The Bank of Japan (BoJ) announced a stimulus program aimed at providing additional funding of around 30 trillion yen to support lending to small businesses. The BoJ kept short-term policy rates at -0.1% and pledged to guide 10-year government bond yields at around 0%. The BoJ also extended the time line for other measures to purchase corporate bonds and commercial paper out to March 2021. It follows data last week indicating that the Japanese economy slipped into recession in the March quarter, for the first time since 2015.

New Zealand: Retail sales volumes declined 0.7% in the March quarter, following a flat result in the December quarter. While less than the consensus estimate for a 1.5% fall, a sharper contraction is likely in the June quarter as lockdown measures took place.

United Kingdom: Public sector net borrowing posted a record increase of £62.1 billion in April, pushing net government debt towards 100% of GDP. Retail sales fell 18.1% over the month in April following a revised 5.2% drop in March. Excluding auto-fuel, sales were down 15.2%, reflecting the reduced requirement for petrol during strict movement restrictions in place.

Today’s key data and events:

AU Preliminary Merchandise Trade Apr (11.30am)

EZ IFO Business Climate May exp 78.3 prev 74.3 (6.00pm)

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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