

Morning Report

Wednesday, 27 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,780.0	2.9%			Last	Overnight Chg		Australia		
US Dow Jones	24,995.1	2.2%	10 yr bond	99.12				90 day BBSW	0.10	0.00
Japan Nikkei	21,271.2	2.6%	3 yr bond	99.74				2 year bond	0.27	0.01
China Shanghai	2,983.5	1.0%	3 mth bill rate	99.84				3 year bond	0.26	0.00
German DAX	11,504.7	1.0%	SPI 200	5,744.0				3 year swap	0.27	-0.01
UK FTSE100	6,067.8	1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	0.03
Commodities (close & change)*			TWI	57.9	-	-	58.2	United States		
CRB Index	131.6	2.1	AUD/USD	0.6545	0.6675	0.6538	0.6651	3-month T Bill	0.12	0.00
Gold	1,710.6	-21.4	AUD/JPY	70.50	71.79	70.42	71.54	2 year bond	0.17	0.00
Copper	5,341.0	68.2	AUD/GBP	0.5369	0.5408	0.5362	0.5392	10 year bond	0.70	0.04
Oil (WTI)	34.2	0.9	AUD/NZD	1.0721	1.0741	1.0693	1.0731	Other (10 year yields)		
Coal (thermal)	56.8	0.3	AUD/EUR	0.6007	0.6072	0.6000	0.6058	Germany	-0.43	0.07
Coal (coking)	112.8	0.3	AUD/CNH	4.6783	4.7666	4.6743	4.7528	Japan	0.01	0.01
Iron Ore	92.7	-2.1	USD Index	99.8	99.8	98.9	99.0	UK	0.22	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: Tensions between Hong Kong and China continued to dominate the news. Most of the US economic data published overnight beat consensus expectations. Key US equity indices rallied to close at 11-week highs. This improvement in equities and risk sentiment more generally helped propel the AUD/USD pair to its highest since March 9 and led to a rise in global bond yields.

Share Markets: There was a robust rally on Wall Street with key US share market indices closing at their highest levels in 11 weeks. At the close, the Dow Jones was up 530 points (or +2.2%) and the S&P 500 finished 36 points higher (or +1.2%).

Interest Rates: The rally in equities and the improvement in appetites for risks spurred a sell off in government bonds (i.e. prices fell and yields rose). The US 10-year yield rose 4 basis points, although the 2-year yield finished flat after being up 2 basis points during intraday trade.

Australian 3-year government bond yields ranged between 0.26% and 0.27% and Australian 10-year yield rose from 0.87% to 0.90%.

Foreign Exchange: The Australian dollar continues to scale higher, as improvements on infections globally in the key economies and waves of stimulus propel a lift in risk sentiment. The AUD/USD exchange rate rose to a high of 0.6675 overnight, which is the highest level since March 9. We flagged

in this report on April 30 that we saw upside risks to the AUD/USD moving higher over coming weeks with a stretch to 0.7000 not out of the question. However, volatility and uncertainty remain high in the foreign exchange market and all other asset markets.

Commodities: Most commodity prices rose overnight with key exceptions including gold and iron ore.

COVID-19: According to Worldometer data, the number of total infections rose to 5.652 million overnight. The US remains the country with the highest number of infections. In second spot is Brazil. The number of infections has been accelerating in Brazil and other parts of South America.

In other COVID-19-related news, Merck & Co. unveiled development plans for a pill to treat the infection and two vaccines to prevent it.

In the US, the New York Stock Exchange (NYSE) opened its trading floor to a subset of brokers and the Chicago Board Options Exchange (CBOE) said it's planning to reopen its Chicago trading floor on June 8. New York Governor Andrew Cuomo is now focusing on reopening New York City.

Italy said almost 96% of the country's virus fatalities had previous medical conditions.

Australia: Yesterday, Prime Minister Scott Morrison

announced a 3 to 5-year plan dubbed JobMaker. The plan will address meeting skill shortages and overhauling the system of funding for vocation education and training (VET). A National Skills Commission has been established to determine the skill needs of Australia annually. The second component of the announcement was industrial relations, which includes five working groups to discuss award simplification, enterprise-agreement making and other workplace-related issues.

The Prime Minister hinted at further details in coming months to also address energy and resources, higher education, research and science, open banking, the digital economy, trade, manufacturing, infrastructure and regional development, deregulation and federation reform, a tax system to support jobs and investment

China: In a published interview, China's central bank Governor Yi Gang said that China will strengthen its economic policy and continue to lower interest rates on loans, suggesting further support is coming from monetary policy measures.

Japan: The final estimate for April confirmed machine tool orders declined 48.3% in the year, the largest annual decline since 2009 and indicating a collapse in business spending.

Bank of Japan (BoJ) Governor Kuroda said that the central bank may take more steps to cushion the economic impact from the coronavirus.

New Zealand: The trade surplus widened from NZ\$722 million to NZ\$1,267 million in April. While both exports and imports weakened due to the COVID-19-related lockdown measures, imports weakened more than exports. Imports in April were down 22% on a year ago.

United States: US economic data overnight was second tier in nature, but mostly beat consensus expectations. The Dallas Fed manufacturing index improved to -49.2 in May, from a record low of -73.7 in April. The Conference board's measure of consumer confidence rose from 85.7 in April to 86.6 in May, matching consensus expectations. And new home sales rose by 0.6% in April, an unexpected result given consensus was betting on a collapse in sales of 23.4%.

Press reports suggest the US is considering sanctions on Chinese officials, businesses and financial institutions over Beijing's plan for Hong Kong. The US Treasury Department could put controls on transactions and freeze assets. Inter-agency talks are continuing. President Trump's Press Secretary said he believes the crackdown will

cost Hong Kong its finance industry.

JPMorgan Chief Jamie Dimon sees "pretty good odds" of a fast economic rebound starting in the third quarter thanks to the US government's stimulus programs and the strength of the consumer going into the pandemic.

The Federal Reserve's James Bullard echoed some of Dimon's comments, predicting a recovery from the highest unemployment since the 1930s with a rapid bounce back that will push the jobless rate below 10% by December 2020. The St. Louis Fed president's view is more optimistic than much of Wall Street, as economists surveyed by Bloomberg expect unemployment to be 10.3% in the fourth quarter.

Today's key data and events:

AU Constr'n Work Done Q1 exp -1.4% prev -3.0% (11:30am)

CH Industrial Profits Apr y/y prev -34.9% (11.30am)

US Richmond Fed index May exp -40 prev -53 (12am)

US Federal Reserve's Beige Book (4.00am)

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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