

# Morning Report

Thursday, 28 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,775.0	-0.1%	<b>Last</b>		<b>Overnight Chg</b>			<b>Australia</b>		
US Dow Jones	25,548.3	2.2%	10 yr bond	99.12	-0.01			90 day BBSW	0.10	0.01
Japan Nikkei	21,419.2	0.7%	3 yr bond	99.74	0.00			2 year bond	0.26	-0.01
China Shanghai	2,973.3	-0.3%	3 mth bill rate	99.85	0.00			3 year bond	0.25	0.00
German DAX	11,657.7	1.3%	SPI 200	5,824.0	51			3 year swap	0.27	0.00
UK FTSE100	6,144.3	1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	-0.01
<b>Commodities (close &amp; change)*</b>			TWI	58.2	-	-	58.8	<b>United States</b>		
CRB Index	129.2	-2.5	AUD/USD	0.6651	0.6680	0.6568	0.6617	3-month T Bill	0.14	0.01
Gold	1,710.6	-21.4	AUD/JPY	71.54	71.93	70.82	71.28	2 year bond	0.18	0.01
Copper	5,341.0	68.2	AUD/GBP	0.5392	0.5419	0.5368	0.5397	10 year bond	0.68	-0.01
Oil (WTI)	31.9	-2.4	AUD/NZD	1.0731	1.0739	1.0671	1.0697	<b>Other (10 year yields)</b>		
Coal (thermal)	56.2	-0.6	AUD/EUR	0.6058	0.6077	0.5982	0.6012	Germany	-0.41	0.02
Coal (coking)	113.4	0.6	AUD/CNH	4.7528	4.7863	4.7245	4.7509	Japan	0.00	0.00
Iron Ore	91.7	1.3	USD Index	99.0	99.3	98.7	98.9	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:** Optimism on the medical front outweighed rising US-China geopolitical tensions. US equities reversed early losses to record back-to-back gains.

**Share Markets:** Most global bourses increased overnight, bolstered by hopefulness among investors that economies around the world are reopening.

US equities started the session weaker after US Secretary of State Mike Pompeo declared that Hong Kong was no longer autonomous from China. The turning point for US shares was when chipmaker Micron issued a positive forecast, sparking optimism that the outlook for global demand had improved. The S&P 500 rose 1.5% and the Dow Jones closed 2.2% higher. Stocks in the financials sector performed best while consumer discretionary stocks have also bounced back in recent sessions.

**Interest Rates:** Government bond yields were mixed as investors kept one eye on global geopolitical tensions. The US 2-year treasury yield closed 1 basis point higher at 0.18% while the 10-year yield fell 1 basis point to 0.68%.

Australian bond yield traded sideways yesterday. The 10-year yield closed at 0.88% and the 3-year yield remained at 0.25%.

**Foreign Exchange:** The US dollar index round-

tripped over the session to remain broadly unchanged at 98.96 this morning. Safe-haven currencies such as the Japanese yen made strong gains early in the session, but riskier currencies made a comeback as risk sentiment improved.

The Australian dollar fell following reports that China was about to announce restrictions on thermal coal imports. It made some improvement later in the session and remains higher over the week at US\$0.6617 this morning.

**Commodities:** The Financial Times published an article suggesting that China's main state planning body, the National Development and Reform Commission, has instructed five large state-owned utility companies not to buy Australian thermal coal. China is yet to announce its coal import targets for 2020 and the article did not cite any official sources. Nonetheless, Australian thermal coal futures prices fell, along with the Australian dollar.

WTI crude oil futures fell 4.5% overnight to US\$31.9 per barrel while iron ore futures prices rose 1.5% to US\$91.7 per tonne.

**COVID-19:** Globally confirmed cases rose by 95k yesterday, according to data compiled by Bloomberg. The number of confirmed cases in Australia stood at 7,139. A vast majority, at 6,566, have recovered while there have been 103

recorded fatalities.

**Australia:** The value of construction work done fell 1.0% in the March quarter, following a 2.9% decline in the December quarter of 2019.

Weakness in residential activity was once again the main driver. Work done in the civil engineering sector also fell while non-residential building construction was flat.

Negative impacts from COVID-19 containment measures were unlikely to have significantly manifested in the March quarter. Restrictions were implemented very late in the quarter and the construction sector was deemed an essential service.

It is possible that there was some disruption to activity from the smoke haze caused by the summer bushfire disaster.

Residential construction continued to fall, despite continued gains in house prices over the quarter. Activity in the sector fell 1.6% over the quarter compared with a 4.6% decline in the December 2019 quarter.

Engineering construction fell 1.1% following a 1.9% fall in the December quarter.

The negative impact of COVID-19 restrictions on construction activity will be most acutely felt via weaker demand. There are long and variable lags between the application process and the commencement of new works. While work will be able to continue in the existing pipeline, new projects are likely to be delayed or cancelled amid the prevailing uncertainty.

Sales at retailer David Jones plunged 35.8% during the coronavirus pandemic, according to a trading update from its parent company. David Jones remained open in March and April, but movement restrictions resulted in a sharp decline in revenue anyway. The business had previously planned to reduce its floor space by 20% by 2025, but these plans have now been expedited.

**China:** Industrial profits fell 4.3% in the year to April, which is an improvement from the decline of 34.9% recorded in the year to March. The improvement reflects the recovery in industrial production, which posted 3.9% year-on-year growth in April, reversing the slump in Q1.

The other important aspect in the data was the 46% drop in the profits of state-owned enterprises (SOEs) in the first four months of this year. It follows a 45.5% decline in the three months to March.

Looking ahead, we expect domestic demand to continue to support a recovery in profits. But external demand should become a stronger headwind, given the downturn overseas. In addition, SOEs may continue to face pressure on profits, as their industrial lines are mainly in upstream sectors, which tend to be impacted by global factors such as commodity prices.

**United States:** The Richmond Fed manufacturing survey improved to -27 in May from -53 in April. The result was better than consensus had expected, but still paints an extremely weak picture of manufacturing activity.

In its Beige Book survey results released overnight, the Fed said that the business outlook remained "highly uncertain and most contacts were pessimistic about the potential pace of recovery". St. Louis Fed president Bullard said that the economic downturn probably peaked in April. The survey was conducted on or before May 18.

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

AU RBA Governor Lowe Speaks (10am)  
 AU COVID-19 Business Impacts Survey May (11:30am)  
 AU New Private Capex Q1 exp -1.0% prev -2.8% (11:30am)  
 EZ Conf. Indexes for Econ., Industrial & Services May (7pm)  
 US GDP Q1 S Annualised exp -4.8% prev -4.8% (10:30pm)  
 US Dur Goods Orders Apr exp -19.1% prev -14.7% (10:30pm)  
 US Initial Jobless Claims May 23 exp 2100k prev 2438k (10:30pm)  
 US Pending Home Sales Apr exp -15.0% prev -20.8% (12am)  
 US Kansas City Fed Mfg Index May exp -22 prev -30 (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.

**Nelson Aston, Economist**

Ph: 02-8254-1316

## Contact Listing

**Chief Economist**

Besa Deda

[dedab@banksa.com.au](mailto:dedab@banksa.com.au)

(02) 8254 3251

**Senior Economist**

Janu Chan

[chanj@banksa.com.au](mailto:chanj@banksa.com.au)

(02) 8253 0898

**Economist**

Nelson Aston

[nelson.aston@banksa.com.au](mailto:nelson.aston@banksa.com.au)

(02) 8254 1316

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