

Morning Report

Friday, 29 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,851.1	1.3%	Last		Overnight Chg			Australia		
US Dow Jones	25,400.6	-0.6%	10 yr bond	99.13				90 day BBSW	0.10	0.00
Japan Nikkei	21,916.3	2.3%	3 yr bond	99.73				2 year bond	0.26	0.00
China Shanghai	2,983.3	0.3%	3 mth bill rate	99.84				3 year bond	0.26	0.01
German DAX	11,781.1	1.1%	SPI 200	5,836.0				3 year swap	0.27	0.00
UK FTSE100	6,218.8	1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	0.00
Commodities (close & change)*			TWI	58.8	-	-	58.6	United States		
CRB Index	129.8	0.6	AUD/USD	0.6623	0.6668	0.6588	0.6624	3-month T Bill	0.14	0.00
Gold	1,718.3	8.9	AUD/JPY	71.34	71.78	71.02	71.30	2 year bond	0.17	-0.01
Copper	5,313.8	75.3	AUD/GBP	0.5401	0.5412	0.5367	0.5376	10 year bond	0.69	0.01
Oil (WTI)	33.6	-0.1	AUD/NZD	1.0701	1.0715	1.0668	1.0685	Other (10 year yields)		
Coal (thermal)	55.6	-1.1	AUD/EUR	0.6017	0.6029	0.5968	0.5979	Germany	-0.42	-0.01
Coal (coking)	113.3	-0.1	AUD/CNH	4.7533	4.7721	4.7333	4.7473	Japan	0.00	0.00
Iron Ore	92.9	1.2	USD Index	99.0	99.1	98.4	98.5	UK	0.21	0.02

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 8am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: An earlier positive mood gave way after Trump announced a press conference to be held today. Trump is expected to announce new US policies on China. It follows the passage of legislation on a new national security proposal in Hong Kong by Chinese policymakers. US shares ended lower. The Australian dollar also gave up earlier gains.

Share Markets: Sentiment turned negative late in the session after US President Trump said he would hold a press conference on Friday. US stocks were initially in the black, but then finished lower. The Dow fell 0.6% and the S&P500 fell 0.2%. Tech stocks were also weighed down by the news that Trump was introducing legislation that would weaken the position of social media companies. In Europe, shares were higher, reflecting earlier optimism on the re-opening of economies and possibly a 750 billion euro recovery plan.

Interest Rates: US bond yields remained in a tight trading range, with Fed officials continuing to shoot down the possibility of a negative interest rate policy, and little prospect lifting rates. US 2-year yields fell 1 basis point to 0.17%, while the 10-year yield lifted 1 basis point to 0.8%.

Foreign Exchange: The US dollar index weakened, reflecting stronger risk appetite earlier in the session, and also a stronger euro. Euro was supported by the joint 750 billion euro recovery

fund announced on Wednesday. The Australian dollar tracked the flow of sentiment, rising as high as 66.7 US cents, before falling on the back of the announced press conference by Trump to determine action on China.

Commodities: Oil prices rose despite the concerns over the potential trade sanctions on China. Stronger US refining activity was supportive of prices.

COVID-19: The World Health Organisation (WHO) has reported 104,505 new cases in the past 24 hours and total cases stood at 5,593,631. The Australian Department of Health reported 11 new cases as of 9pm yesterday, taking the total to 7,150.

Australia: Private capital expenditure (or capex) fell 1.6% in the March quarter. Uncertainty and fragile business confidence put a lid on business spending as COVID-19 spread during the quarter. This uncertainty has been taken to another level after restrictions to stem the spread of COVID-19 were imposed across the world.

It was the services sector which led the decline in capex over the March quarter, falling 5.2%. It was the largest quarterly decline in 4½ years.

Capex in mining and manufacturing rose in the quarter, lifting 4.2% and 5.7%, respectively. Strength in these areas is unlikely to be sustained given the uncertain global backdrop, although the

mining sector has been less impacted than other industries, particularly iron ore.

The second estimate for business spending in 2020-21 and the sixth estimate for spending in 2019-20 were also released. Both plans revealed businesses delayed or cancelled plans.

The second estimate for 2020-21 was \$90.9 billion, which is a fall of 7.9% on the second estimate a year ago. Compared with the first estimate for 2020-21, a downgrade of 8.8% occurred. It is the first decline between the first and second estimate recorded since 1991/92, which is the time of the last recession, and the largest fall on record.

The sixth estimate for business spending in 2019-20 was \$115.4 billion, which is 5.4% lower on 2018-19.

Uncertainty about the outlook means businesses are unlikely to have an appetite for increasing business spending in the next few quarters. A larger fall in capex is likely for Q2.

Addressing a parliamentary committee yesterday, Reserve Bank (RBA) governor Philip Lowe said that the economy may be in a better position than originally feared, but that significant uncertainty remained.

He reiterated that the unprecedented wave of stimulus was helping to build a bridge between now and the recovery period. When questioned further, Governor Lowe said that a critical point for the economy will be in September, when the JobKeeper scheme is scheduled to end, along with most mortgage and loan payment deferrals. He said that the RBA had revised down its forecast for the decline in hours worked from a 20% decline in May to a 15% decline.

The fourth edition of a survey measuring the impact of COVID-19 on businesses was released yesterday by the Australian Bureau of Statistics (ABS). It showed that movement restrictions have had a marked impact on the way businesses operate and on their revenue. 74% of firms said they had changed the way their businesses operated and 72% said their revenue had declined as a result.

More than half of the businesses in the survey (55%) said they had received a wage subsidy from the government and 38% said they had received some sort of other government support. Businesses also received support via loan payment deferrals (16%) and property rental deferrals (19%).

71% of companies said that they expected social distancing measures would negatively impact their operations in the coming two months. 63% said that

they expected trading restrictions to continue to be impacting their business and 50% expected a negative impact from travel restrictions.

China: Chinese lawmakers approved a proposal for new national security legislation in Hong Kong, bypassing the HK Legislative Council. Earlier in the week, Trump's administration has said that it could no longer establish Hong Kong's autonomy from China. Possible actions could include sanctions and revoking Hong Kong's special trading status. A White House advisor said that the US may now need to treat Hong Kong like China when it comes to trade and other financial matters. Trump has said that he will announce new US policies on China today.

United States: Initial jobless claims continued to fall. They were down to 2123k for the week ending May 23 from 2446k previously. Claims hit a peak of 6.9 million in late March. However, the number of claims in excess of over 2 million still dwarfs the level of claims before the crisis, which were sitting below 300k. The worst may be over, but conditions in the labour market will remain weak for some time.

The contraction in GDP in the first quarter was revised to be larger, from an annualised -4.8% to -5.0%. The sharpest contraction is likely to occur in the second quarter of the year, which would confirm a technical recession over the first half of the year.

In more forward looking data, pending home sales fell 21.8% in April after a 20.8% fall in March, reflecting the impact of lockdown measures on turnover. Durable goods orders were also weak, down 17.2% in April.

New York Fed President Williams played down the effectiveness of negative rates, saying that there were other tools which were "more effective and powerful to stimulate the economy". Williams added "I don't think negative rates is something that makes sense".

Dallas Fed President Kaplan said that the US economy has likely bottomed, but that a healthy rebound depended on dramatically increasing testing and contact tracing. St. Louis Fed President Bullard said that expanded unemployment benefits would not be appropriate once recovery takes hold.

Today's key data and events:

JN Jobless Rate Apr exp 2.7% prev 2.5% (9:30am)
JN Retail Sales Apr exp -6.9% prev -4.5% (9:50am)
JN Industrial Output Apr P exp -5.7% prev -3.7% (9:50am)
AU Private Sector Credit Apr exp 0.6% prev 1.1% (11:30am)
JN Consumer Confidence May exp 21.1 prev 21.6 (3pm)
JN Housing Starts Apr y/y exp -12.1% prev -7.6% (3pm)
EZ CPI May y/y exp 0.1% prev 0.4% (7pm)
EZ CPI Core May y/y exp 0.8% prev 0.9% (7pm)
US W'sale Inventories Apr P exp -0.7% prev -0.8% (10:30pm)
US Retail Inventories MoM Apr prev 0.9 (10:30pm)
US Personal Spending Apr exp -12.8% prev -7.5% (10:30pm)
US PCE Core Deflator Apr exp -0.3% prev -0.1% (10:30pm)
US MNI Chicago PMI May exp 40.0 prev 35.4 (11:45pm)
US U. of Mich. Sentiment May F exp 74.0 prev 73.7 (12am)
US Fed Chair Powell Takes Part in a Discussion (1am)
CH Manufacturing PMI May exp 51.0 prev 50.8 (11am)
CH Non-manufacturing PMI May exp 53.5 prev 53.2 (11am)

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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