

Morning Report

Thursday, 2 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,934.4	0.6%	Last		Overnight Chg			Australia		
US Dow Jones	25,735.0	-0.3%	10 yr bond	99.04	-0.01			90 day BBSW	0.10	0.00
Japan Nikkei	22,121.7	-0.7%	3 yr bond	99.71	0.00			2 year bond	0.26	0.01
China Shanghai	3,171.8	1.4%	3 mth bill rate	99.87	0.00			3 year bond	0.26	0.01
German DAX	12,260.6	-0.4%	SPI 200	5,943.0	40			3 year swap	0.24	0.00
UK FTSE100	6,158.0	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.94	0.07
Commodities (close & change)*			TWI	60.0	-	-	60.2	United States		
CRB Index	139.1	1.2	AUD/USD	0.6902	0.6944	0.6877	0.6913	3-month T Bill	0.14	0.00
Gold	1,781.0	8.1	AUD/JPY	74.48	74.70	73.92	74.29	2 year bond	0.16	0.01
Copper	6,008.3	53.3	AUD/GBP	0.5567	0.5583	0.5536	0.5540	10 year bond	0.67	0.02
Oil (WTI)	39.7	0.4	AUD/NZD	1.0696	1.0706	1.0653	1.0662	Other (10 year yields)		
Coal (thermal)	51.6	-0.5	AUD/EUR	0.6144	0.6168	0.6135	0.6144	Germany	-0.40	0.06
Coal (coking)	125.1	1.0	AUD/CNH	4.8796	4.9037	4.8627	4.8859	Japan	0.05	0.02
Iron Ore	98.3	-0.1	USD Index	97.4	97.6	97.0	97.2	UK	0.21	0.04

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: Pfizer and BioNtech said that their experimental COVID-19 vaccine showed promise, turning market sentiment positive in the latter half of the overnight session. Upbeat economic data in Europe and the US also helped.

Share Markets: US stocks traded mostly higher following positive vaccine news and a pick up in manufacturing sector confidence. The S&P 500 rose 0.5% and the NASDAQ rose 1.0% – the latter to a new record high. The Dow Jones was more mixed and closed 0.3% lower. Investors kept one eye on geopolitical tensions centred around Hong Kong and mainland China, as well as the rising COVID-19 case count in some parts of the US.

European stocks fell earlier in the session as protestors clashed with police in Hong Kong. The Euro Stoxx 50 closed lower by 0.2%.

Australian shares improved modestly yesterday. The ASX 200 rose 0.6%, its second consecutive daily increase.

Interest Rates: Government bond yields rose as economic data generally beat expectations and prospects for a vaccine improved. Reflecting the improved sentiment towards the outlook, the longer end of the curve outperformed.

The 10-year US treasury yield rose 2 basis points to 0.67% while the 2-year yield edged up by 1 basis

point to 0.16%.

The steepening in the curve was more pronounced in Australia. The 10-year Australian government bond yield gained 7 basis points to 0.94%. Yields on 3-year bonds rose 1 basis point to 0.26%, in line with the RBA's target of "around 0.25%".

Foreign Exchange: The US dollar fell slightly as riskier currencies gained favour. The US dollar index lost 0.22 points to 97.19 this morning.

The Australian dollar is currently trading marginally higher at US\$0.6913. Trading ranged between US\$0.6877 and US\$0.6944.

Commodities: WTI oil prices rose US\$0.4 to US\$39.7 per barrel. US crude inventories fell for the first time since May, according to the Energy Information Administration (EIA). Stocks of oil unexpectedly declined by 7.2 million barrels, signalling a tentative return of demand. Meanwhile, OPEC cut its crude oil production in June to the lowest level since 1991.

COVID-19: Investors continue to closely watch COVID-19 infection rates in the US. New cases in Texas exceeded 8,000, a daily record, while California banned indoor dining and closed theatres in some parts of the state. The Texas medical centre said Houston's intensive care units were at 102% capacity, with 1,350 patients. It said that COVID-19 patients occupied 36% of ICU beds. Once ICU

capacity is reached, hospitals must convert regular hospital beds to ICU beds, before implementing further emergency protocols.

Australia recorded 87 new cases in the 24 hours to 9pm last night, according to the Department of Health. 73 of those cases were recorded in Victoria. News reports have suggested that plans are being formed to allow some international students to arrive in Australia in time for semester 2. Currently, Australia's border is closed to international visitors.

Australia: Dwelling prices and building approvals are showing further signs of stress as demand conditions erode further.

CoreLogic's 8-capital cities dwelling price index fell 0.8% in June, following a 0.5% decline in May. The biggest declines in June were recorded by Melbourne and Perth. The annual pace of growth across the combined capital cities slipped to 8.9%.

Building approvals fell 16.4% in May, driven by the volatile "other" dwelling sector (which includes apartments). Private "other" dwelling approvals fell 34.9%. The Australian Bureau of Statistics (ABS) noted that COVID-19 may not have had its full impact on approvals due to the lag between applications being prepared, submitted and decided, suggesting further weakness ahead.

The AiG performance of manufacturing index rose to 51.5 in June, from 41.6 in May. The index is now above the critical level of 50.0, suggesting expansion in activity ahead for the manufacturing industry. New orders jumped 20.6 points, which suggests June's result above 50.0 might be sustained.

China: The Caixin manufacturing purchasing managers' index (PMI) rose from 50.7 in May to 51.2 in June. It was the highest level in six months, boosted by domestic demand despite weakening export orders.

Europe: German retail sales unexpectedly jumped 13.9% in May, boosting hopes of a speedy economic recovery in Europe's largest economy. Unemployment also rose by less than expected over the month, with a 69,000 increase leaving the unemployment rate at 6.4% compared with 6.3% in April.

More broadly in the bloc, the final reading for June Eurozone manufacturing confidence was revised up. The Markit Eurozone final PMI for June rose to 47.4 compared with a flash estimate of 46.9 and 39.4 in May. Markit cautioned that the reading was still consistent with a 2% decline in economic activity and said that a sustained rebound from here is not

guaranteed.

Japan: The Tankan survey of large manufacturers showed a decline in the headline index to -32 in Q2, from -8 in Q1. It hit the lowest level since 2009 and was also worse than consensus expectations of -31.

New Zealand: Building permits rose 35.6% in May, after a decline of 9.9% in April. The monthly spike is the biggest since December of 2002.

United States: Manufacturers saw improved operating conditions in June, according to the latest ISM survey. The ISM manufacturing PMI rose by more than expected to 52.6 in June from 43.1 in May. A reading above 50 indicates that more firms saw an improvement compared with a month ago than those who saw a deterioration. New orders bounced to 56.4 from 31.8, signalling a pick up in demand. The employment index improved to 42.1 in June from 32.1 in May. It remains in contractionary territory, suggesting that labour market conditions are challenging.

Other economic data released overnight included a mild improvement in the final reading of the June Markit PMI to 49.8 from 49.6 in the flash estimate and soggy construction spending of -2.1% in May following -3.5% in April. ADP employment (a private labour market survey) undershot expectations with a 2.4 million increase in June. However, May's outturn was revised significantly higher to 3 million from a decline of 2.8 million initially reported.

The minutes from the June FOMC meeting revealed that members discussed the usefulness of additional policy measures. The three main tools discussed were yield curve control, forward guidance and asset purchases. There appeared to be little appetite for yield curve control among the committee, with forward guidance and expanded asset purchases the clear favourites.

The House of Representatives passed a bill imposing sanctions on China in retaliation to its new national security law which they say diminishes the freedoms of Hong Kong. Sanctions have been applied to banks who do business with officials involved in cracking down on pro-democracy protestors in Hong Kong. The bill was approved unanimously in a vote.

Today's key data and events:

AU Trade Balance May exp \$9.0bn prev \$8.8bn (11:30am)

EZ Producer Prices May exp -0.4% prev -2.0% (7pm)

US Nf Payrolls Jun exp 3090k prev 2509k (10:30pm)

US Unemploy. Rate Jun exp 12.5% prev 13.3% (10:30pm)

US Trade May exp -\$53.1bn prev -\$49.4bn (10:30pm)

US Factory Orders May exp 8.6% prev -13.0% (12am)

US Dur. Good Orders May F exp 15.8% prev 15.8% (12am)

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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