

Morning Report

Tuesday, 2 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,819.2	1.1%	Last		Overnight Chg			Australia		
US Dow Jones	25,475.0	0.4%	10 yr bond	99.10			-0.02	90 day BBSW	0.10	0.00
Japan Nikkei	22,062.4	0.8%	3 yr bond	99.74			0.00	2 year bond	0.27	0.00
China Shanghai	3,055.9	2.2%	3 mth bill rate	99.86			0.01	3 year bond	0.26	0.00
German DAX	11,586.9	-1.6%	SPI 200	5,837.0			9	3 year swap	0.27	0.00
UK FTSE100	6,166.4	1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.90	0.01
Commodities (close & change)*			TWI	58.6	-	-	59.3	United States		
CRB Index	132.3	0.1	AUD/USD	0.6624	0.6813	0.6648	0.6800	3-month T Bill	0.12	-0.01
Gold	1,739.6	9.3	AUD/JPY	71.30	73.31	71.61	73.14	2 year bond	0.16	0.00
Copper	5,358.8	45.0	AUD/GBP	0.5376	0.5453	0.5390	0.5444	10 year bond	0.66	0.01
Oil (WTI)	35.4	-0.1	AUD/NZD	1.0685	1.0817	1.0740	1.0796	Other (10 year yields)		
Coal (thermal)	56.3	1.4	AUD/EUR	0.5979	0.6119	0.5986	0.6109	Germany	-0.40	0.05
Coal (coking)	104.5	0.1	AUD/CNH	4.7473	4.8549	4.7431	4.8474	Japan	0.01	0.01
Iron Ore	97.3	0.1	USD Index	98.5	98.3	97.8	97.8	UK	0.23	0.05

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: Sentiment remained risk-on, as investors focussed on signs of economic recovery.

Stocks and commodities generally rose and bonds mostly fell, despite US-China trade tensions, underwhelming vaccine trial results and civil unrest in the US following the killing of George Floyd, an unarmed black man, by police.

Share Markets: Global equity bourses around the world rose, led by encouraging US manufacturing survey data from the Institute Supply Management (ISM). The S&P 500 and Dow Jones both rose by 0.4%, while the tech-heavy NASDAQ outperformed, rising 0.7%.

Some European markets were closed for Whit Monday, but those that were open generally posted strong gains. The Euro Stoxx 50 rose 0.9%.

The ASX 200 gained 1.1% yesterday, buoyed by positive risk sentiment.

Interest Rates: Government bond yields were range-bound, but generally came under upward pressure amid the risk-on mood. The US yield curve was steeper, with the rate on the 10 year note increasing 1 basis point to 0.66% while the 2-year yield closed unchanged at 0.16%.

Australian bond yields also rose at the longer end yesterday. The 10-year bond yield edged up 1 basis point to 0.90%. The 3-year bond yield remains

anchored within the RBA's target range at 0.26% and the 90-day bank bill swap rate remained at 0.10%.

Foreign Exchange: Riskier currencies generally rose, and the US dollar index weakened. The US dollar index trended lower for most of the session, and is currently at 97.81 this morning, its lowest level since March 12.

The Australian dollar continued its bull-run overnight and has breached US\$0.68 this morning, trading at around US\$0.6800 compared with US\$0.6624 yesterday morning. Investor faith in the global economic recovery and a less hawkish tone towards China struck by US president Donald Trump has supported sentiment towards the Australian dollar in recent days.

Commodities: Commodity prices gained on the prospect of a global economic recovery following the easing of movement restrictions around the world.

WTI oil futures edged up by US\$0.07 per barrel to US\$35.56, their third straight session of gains. The price gain was muted after Russia expressed hesitance towards extending the historic OPEC+ cuts, favoured by Saudi Arabia. Talks are ongoing.

COVID-19: Drug maker Gilead suffered a setback after its vaccine candidate, remdesivir showed only

a limited benefit in a large trial. Global confirmed cases continue to rise, increasing by 106k yesterday, according to data compiled by Bloomberg. Australia recorded 8 new cases in the 24 hours to 3pm yesterday, according to the Department of Health. The total number of cases now stands at 7,204, with 6,619 people having recovered. There have been 103 recorded fatalities due to COVID-19 in Australia.

Australia: News reports suggest that home renovation cash grants could be part of a multi-billion-dollar construction stimulus package. The Federal government is due to announce the details of the plans this week.

Data from CoreLogic yesterday showed that dwelling prices fell in May as the impact of COVID-19 on confidence and the economy took its toll. The 8-capital cities index fell 0.5% in May following a 0.2% increase in April, its first monthly decline in just under a year. Over the year, the annual pace of growth held at 9.7%.

Turnover remained extremely low, as buyers and sellers opted to sit on the sidelines amid the uncertainty caused by COVID-19. Restrictions on physical auctions as well as broader movement restrictions have directly impacted housing market activity. Despite the relaxation of some of these measures, turnover is expected to remain subdued.

The change in prices was not uniform across capital cities. Darwin recorded the sharpest fall of 1.6% over the month in May, reversing most of the previous month's 1.7% gain. Melbourne dwelling prices registered a 0.9% decline and Sydney prices fell by 0.4%. Brisbane (-0.1%) and Perth (-0.6%) also recorded declines in prices over the month. Prices rose in Hobart (0.8%), Canberra (0.5%) and Adelaide (0.4%).

Record low interest rates and other policy measures will support housing demand. However, it is clear the economy has contracted sharply along with population growth and that household incomes are under downward pressure. Consequently, we expect dwelling prices to continue to decline over coming months.

The AiG performance of manufacturing index recovered some ground in May to settle at 41.6, from 35.8 in April. However, May's outcome is still well under the critical 50 level, suggesting a contraction in manufacturing activity in the months ahead.

The Melbourne Institute inflation gauge fell by 1.2% in May, after a rise of 0.1% in April.

China: The Caixin survey reinforced other data that China's economy continues to recover, with the manufacturing purchasing managers' index (PMI) rising back into expansion in May at 50.7. It was 49.4 in April. However, new orders and new export orders remained in contraction, reflecting pressure from lockdowns overseas, although both indexes improved from the previous month.

News reports suggest Chinese government officials have told major state-run agricultural companies to pause purchases of some American farm goods, including soybeans, as Beijing evaluates the ongoing escalation of tensions with the US over Hong Kong.

Europe: The final reading of the Eurozone Markit manufacturing PMI edged lower by 0.1 from the flash estimate to 39.4 in May. Encouragingly, the PMI for Italy rebounded to 45.4 from 31.1 in April.

Japan: Company profits fell by 32.0% in the year to the March quarter. Meanwhile, capital spending still rose over the year to the quarter, by 4.3%.

United States: The ISM manufacturing PMI rose by 1.6 points to 43.1 in May. It was the first rise in four months after reaching an 11-year low in April. Employment, new orders and prices paid all registered moderate increases. The index and its sub-components remain at very weak levels, however, the improvement is an encouraging sign that the worst of the contraction may be passing.

Other data showed that construction spending fell 2.9% in April, beating the consensus forecast of a 7.0% fall. Spending in March was revised lower to no change (the data showed a 0.9% gain previously).

Today's key data and events:

NZ Building Permits Apr prev -21.3% (8:45am)

NZ Terms of Trade Q1 exp 1.5% prev 2.6% (8:45am)

AU Business Indicators Q1 (11:30am)

Company Profits exp 0.0% prev -3.5%

Inventories exp -2.0% (or -0.7ppt contribution) prev 0.3%

AU Balance of Payments Q1 (11:30am)

Net Exports Contribution to GDP exp 0.5ppt prev 0.1ppt

Current Account Balance exp \$6.5bn prev \$1.0bn

AU Government Statistics (11:30am)

AU RBA Board Meeting (2:30pm)

UK N'wide House Prices May exp -1.0% prev 0.7% (4pm)

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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