

Morning Report

Monday, 30 March 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	4,842.4	-5.3%			Last	Overnight Chg		Australia		
US Dow Jones	21,636.8	-4.1%	10 year bond	99.17		0.07		10 year bond	0.93	0.00
Japan Nikkei	19,389.4	3.9%	3 year bond	99.72		0.01		3 year bond	0.26	-0.02
China Shanghai	2,905.2	0.3%	3 month bill rate	99.60		-0.02		3 year swap	0.39	-0.03
German DAX	9,632.5	-3.7%	SPI 200	4,834.0		6		2 year bond	0.24	0.00
UK FTSE100	5,510.3	-5.3%	FX Last 24 hrs	Open	High	Low	Current	90 day BBSW	0.43	-0.02
Commodities (close & change)			TWI	51.8	-	-	53.9	United States		
CRB Index	123.9	-2.5	AUD/USD	0.5827	0.5975	0.5803	0.6148	10 year bond	0.67	-0.17
Gold	1,631.3	-3.2	AUD/JPY	64.78	66.34	64.52	66.28	2 year bond	0.24	-0.05
Copper	4,784.5	-10.3	AUD/GBP	0.5045	0.5123	0.5006	0.4939	3-month T bill	-0.04	0.05
Oil (WTI)	21.5	-1.1	AUD/NZD	1.0180	1.0270	1.0185	1.0193	Other (10 year yields)		
Coal (thermal)	71.7	1.5	AUD/EUR	0.5431	0.5527	0.5409	0.5523	Germany	-0.47	-0.11
Coal (coking)	160.0	0.0	AUD/CNH	0.4222	4.2348	4.1322	4.2924	Japan	0.02	0.02
Iron Ore	88.3	-0.3	USD index	102.49	102.53	101.05	99.35	UK	0.37	-0.03

*Gold, copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Share markets in the US gave up ground after the best 3-day run since the 1930s. Investors remain cautious as month end approaches, which could force large capital-redemption flows. However, several major index monitoring firms have announced that they will postpone index rebalancing this month.

The Australian government announced fresh measures and restrictions yesterday, as the number of new COVID-19 cases continues to rise.

Share Markets: The Dow Jones index fell 915 points (or -4.1%) and the S&P 500 index dropped 89 points (or -3.4%). The ASX 200 index on Friday declined 271 points (or -5.3%) and is now down 32.4% from its peak struck earlier this year on March 9.

Interest Rates: The US 2-year treasury yield fell 5 basis points to 0.23% and the US 10-year bond yield fell 17 basis points to 0.67%. US-dollar short-maturity funding remained tight; the spread between 3-month Libor and 3-month overnight indexed swaps (OIS) rose further on Friday to 138 basis points. This spread is the widest since 2008 during the GFC and compares with just 12 basis points in early February.

Australian 3-year government bond yields fell from 0.28% to 0.26%, a record low and close to the Reserve Bank's quantitative easing (QE) target of

0.25%. Indeed, the RBA was active in the short end of the markets on Friday for its QE program, buying \$3 billion to bring the 3-year benchmark yield to 0.26%, though liquidity remains fragile and prone to sharp moves on any large flows.

In other developments, US banks are leading the charge in the primary bond market, bolstering coffers that are already believed to be enough to withstand record corporate drawdowns on lending facilities. In the past two weeks, Wells Fargo, Goldman, BofA, Citi, JPMorgan and Morgan Stanley have borrowed a combined US\$48.4 billion, which is almost a third of the period's total issuance.

Foreign Exchange: The US dollar index continued to remain under selling pressures, falling by 1.0% on the day. EUR/USD rose from 1.1040 to a two-week high of 1.1111. The British pound was Friday night's best performer, rising from 1.2200 to 1.2486 against the US dollar. The credit rating downgrade of the UK by Fitch was announced after the market closed. Meanwhile, USD/JPY fell from 109.00 to 107.76.

AUD/USD continued to grind higher. It reached a high of 0.6200 on Friday, which is nearly the highest rate in two weeks. Major resistance for the AUD sits at 0.6200. The AUD's rise remains a USD story with the world growth outlook still weak and risk

aversion high.

Commodities: Saudi Arabia dispelled speculation that it is seeking talks with Russia to resolve the oil price war, despite tumbling demand worldwide. The situation is expected to deteriorate later this week when the current OPEC+ deal ends, leaving every member country free to pump at will. Oil dropped below US\$25 a barrel in Friday night trade.

COVID-19: There are now 634,835 confirmed infections worldwide and 29,957 deaths, according to March 29 data from WHO. The US is the country with the most infections at 103,321. The number of infections in Australia have risen to 3,966 and deaths to 16.

Last night, the Australian Prime Minister announced stricter rules for outside gatherings; only two people should now gather in public spaces and “other areas of gathering. Some new public areas – public playgrounds, outside gyms and skateparks – will be closed from midday today. New “strong advice” for individuals is that people should stay home unless shopping for essentials; for medical care or compassionate needs; to exercise in compliance with the new two-person rules; to go to “work and education if you cannot work or learn remotely”.

Australia: On Sunday, Prime Minister Morrison announced a \$1.1 billion package for health and family violence services, including \$669 million to expand Medicare-subsidised telehealth.

Morrison also flagged a wage guarantee, which will include people who have already lost their jobs as a result of COVID-19. But has yet to announce details of this policy.

Media reports suggest the government is planning to pay workers as much as 80% of their wages and is examining ways to get employers to transfer the money to their staff, as an alternative to using the welfare system.

Prime Minister Morrison has criticised the way the United Kingdom has offered an 80% wage subsidy up to a cap of £2,500 a month, but he had not ruled out a subsidy in Australia with a design that suits existing tax and payment systems.

The Australian scheme is expected to have a cap on the total income to be paid and the percentage of income covered is yet to be decided.

There are also reports that the Federal Treasurer and the state treasurers have finalised rental relief for commercial tenancies over the course of the pandemic. They have agreed on a set of principles

including that commercial tenants cannot be evicted during the period of the crisis and that certain states may look to ways to provide financial support for landlords so they can in turn reduce rents for their tenants in cases of financial hardship. The individual states will finalise their own policies.

The NSW government on Friday unveiled a second stimulus package worth \$750 million in additional support for the NSW economy. It follows a \$2.3 billion stimulus package announced earlier in March. The fresh stimulus is aimed at providing payroll relief and rent support for businesses.

A new \$1 billion “Working for NSW” fund is to be created, which is focussed on trying to sustain businesses and retain and create jobs. The details around the scope and nature of this fund are yet to be released. Other measures include rent deferral for 6 months for commercial tenants with fewer than 20 employees in government-owned properties; the extension of payroll tax deferrals to large businesses with more than \$10 million in turnover for 6 months; and gaming-tax deferral for independent hotels, pubs & clubs for six months conditional on the extra cash flow allowing staff to be retained.

Canada: The Bank of Canada (BoC) cut rates another 50 basis points to a record low of 0.25% in a surprise decision and announced a large-scale asset purchase program. The BoC will buy a minimum of C\$5 billion a week in government securities, as well as short-term corporate debt. BoC Governor Stephen Poloz said negative rates are in the toolkit but not being considered right now.

China: Over January and February, industrial profits declined 38.3% from a year ago, the steepest decline since 2010. The decline in profits mirrors the sharp fall in industrial activity, as the coronavirus delayed the opening of industrial firms for weeks after the Lunar New Year holiday. While activity is beginning to recover in China, the sector now faces another major headwind with the virus outbreak escalating globally. Global demand as a result is set to weaken significantly.

New Zealand: Consumer confidence plunged 12.9% to 106.3 in March, the lowest since 2011, reflecting the escalating impact of the coronavirus pandemic.

United Kingdom: Britain's credit rating was cut at Fitch, which cited the volume of cash that the UK Treasury is throwing at the coronavirus pandemic. The rating was cut from AA to AA- with a negative outlook.

UK's Prime Minister Boris Johnson last week

confirmed he has Covid-19 but vowed to continue leading the government from 10 Downing Street. UK's Health Secretary Matt Hancock also tested positive.

United States: The House passed the \$2 trillion stimulus bill, ensuring cash payments to millions of Americans and large loans to businesses large and small. Congress has already begun discussing a fourth package. The Democrats are seeking stronger workplace protections and more money for hard-hit states like New York.

US President Trump ordered General Motors (GM) to make ventilators under the Defence Production Act. GM will be required "to accept, perform, and prioritise contracts or orders for the number of ventilators" that the US Department of Health and Human Services secretary deems appropriate.

The US Federal Reserve said it would reduce its treasury bond-buying program from \$75 billion per day currently to \$60 billion per day on April 2. It also intends to reduce its purchases of mortgage-back securities by \$10 billion to \$40 billion. The decisions are an attempt to calibrate its operations and remain flexible.

Two US Federal Reserve Presidents expressed guarded optimism the US economy will bounce back but are not sure when. Atlanta's Federal Reserve President, Raphael Bostic, told Bloomberg the nature of the health crisis makes it different from a typical recession. Dallas Federal Reserve President, Robert Kaplan, said "we've got a great chance to come out of this very strong." However, Kaplan added he expects the unemployment rate to hit "the low to mid teens" before improving. This Friday's jobs data is expected to show the first decline in US non-farm payrolls in nearly a decade.

The final reading on consumer sentiment published by the University of Michigan showed a sharp drop of 6.8 points to 89.1 in March. It was the sharpest drop recorded since October 2008 and due to the mounting COVID-19 cases.

In other data, personal income in February beat consensus estimates to rise by 0.6% in the month. The core personal consumption expenditure (PCE) deflator rose from 1.7% in January to 1.8% in February. This indicator is closely watched by the Federal Reserve, but is likely to soften over the next few months due to weaker economic activity.

Today's key data and events:

EZ Economic Confidence Mar exp 93.1 prev 103.5 (8pm)
 EZ Business Climate Indicator Mar (8.00pm)
 EZ Consumer Confidence Mar final prev -11.6 (8.00pm)
 EZ CPI Mar y/y exp 1.4% prev 1.7% (11.00pm)
 US Pending Home Sales Feb exp -2.5% prev 5.2% (1.00am)
 US Dallas Fed Mfg Index Mar exp -7.0 prev 1.2 (1.30am)

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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