

# Morning Report

Tuesday, 31 March 2020

| Equities (close & % change)   |          |       | Sydney Futures Exchange (close & change) |         |                      |        |         | Interest rates (close & change) |       |       |
|-------------------------------|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200                   | 5,181.4  | 7.0%  | <b>Last</b>                              |         | <b>Overnight Chg</b> |        |         | <b>Australia</b>                |       |       |
| Dow Jones                     | 22,327.5 | 3.2%  | 10 yr bond                               | 99.20   | -0.04                |        |         | 90 day BBSW                     | 0.39  | -0.04 |
| Nikkei                        | 19,085.0 | -1.6% | 3 yr bond                                | 99.72   | 0.00                 |        |         | 2 year bond                     | 0.26  | 0.02  |
| Shanghai                      | 2,879.0  | -0.9% | 3 mth bill rate                          | 99.63   | 0.01                 |        |         | 3 year bond                     | 0.26  | 0.00  |
| DAX                           | 9,816.0  | 1.9%  | SPI 200                                  | 5,257.0 | 66                   |        |         | 3 year swap                     | 0.39  | -0.01 |
| FTSE100                       | 5,563.7  | 1.0%  | FX Last 24 hrs                           | Open    | High                 | Low    | Current | 10 year bond                    | 0.78  | -0.14 |
| Commodities (close & change)* |          |       | TWI                                      | 53.0    | -                    | -      | 54.4    | <b>United States</b>            |       |       |
| CRB Index                     | 121.7    | -2.2  | AUD/USD                                  | 0.6067  | 0.6184               | 0.6112 | 0.6170  | 3-month T Bill                  | 0.02  | 0.02  |
| Gold                          | 1,622.9  | -14.1 | AUD/JPY                                  | 66.37   | 66.64                | 65.74  | 66.48   | 2 year bond                     | 0.22  | -0.02 |
| Copper                        | 4,784.5  | -10.3 | AUD/GBP                                  | 0.4962  | 0.4982               | 0.4924 | 0.4968  | 10 year bond                    | 0.71  | 0.03  |
| Oil (WTI)                     | 20.3     | -1.2  | AUD/NZD                                  | 1.0166  | 1.0279               | 1.0178 | 1.0255  | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                | 69.0     | -2.7  | AUD/EUR                                  | 0.5489  | 0.5601               | 0.5504 | 0.5582  | Germany                         | -0.49 | -0.02 |
| Coal (coking)                 | 160.0    | 0.0   | AUD/CNH                                  | 4.2931  | 4.3950               | 4.3361 | 4.3875  | Japan                           | 0.02  | 0.00  |
| Iron Ore                      | 88.3     | 0.0   | USD index                                | 99.26   | 99.32                | 98.29  | 98.96   | UK                              | 0.34  | -0.03 |

\*Gold, copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.

Data as at 7:30am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session).

**Main Themes:** Sentiment was cautiously positive overnight as investors took heart that there was some progress being made in containing the coronavirus, including a new faster testing kit.

US President Donald Trump announced an extension of social distancing guidelines while Australia and China introduced more stimulus measures yesterday. Equities moved higher, oil prices fell, the US dollar strengthened and bond yields were mixed.

**Share Markets:** Global equity bourses rose overnight, ostensibly due to progress being made in the medical battle against the coronavirus. Shares in US firm Abbott Laboratories surged after it released details of a new testing kit that returns a result in 5 minutes.

An outsized increase in large-caps compared with small-caps suggests that some of the increase may also be due to portfolio rebalancing flows. It is approaching the approaching end of quarter and end of financial year in Japan and some funds with proportional requirements may need to top up their equity holdings.

The S&P 500 rose 3.4% and the Dow Jones rose 3.2%. US bourses have risen for 4 of the past 5 sessions.

European share markets generally rose, but by a

smaller degree. The Euro Stoxx 50 rose 1.4%. European stocks were held back by the financial sector, after the first signs of banks and other financial organisations who have agreed to forego dividends and capital buybacks in order to support the economy. UniCredit yesterday became the first Italian bank to comply with regulatory calls to preserve capital, putting on hold plans to pay dividends on 2019 results and to buy back shares. ING and Commerzbank followed suit in suspending payment of their interim dividends.

Europe's financial regulation chief, Valdis Dombrovskis, has pledged to delay tough new Basel capital rules for banks, adding that support for lending has to be the overwhelming priority in the fight against coronavirus. The Basel rule changes, which overhaul standards for how banks should measure the risk of losses on their investments, have been the subject of an intensive lobbying campaign by the sector which has warned they could lead to an increase in capital requirements forcing banks to rein in lending.

Australian shares surged yesterday following the announcement of the Federal government's massive wage subsidy programme. The ASX 200 rose 7.0%, its biggest ever one-day gain. The index trended higher all session, but surged at the close following the announcement of stimulus measures

and a tick higher in US futures.

**Interest Rates:** Bond yields were mixed overnight. US treasury yields came under downward pressure after President Trump announced the extension of stay-at-home measures but mostly rebounded as the session progressed. The 10-year bond yield rose 3 basis points to 0.71% while the 2-year yield fell by 2 basis points to 0.22%.

Australian bond yields fell yesterday, despite the announcement of an additional \$130 billion stimulus package to be funded mostly through the issuance of new government bonds. The 10-year yield fell 14 basis points to 0.78%. At the shorter end, the 2-year yield was unchanged at 0.26%.

**Foreign Exchange:** The US dollar gained in jittery FX trading overnight. Investors remain braced for a prolonged period of uncertainty as governments have tightened containment measures around the world. The US dollar index ended five consecutive sessions of declines, rising 0.69 to 98.96 this morning.

The Australian dollar proved resilient overnight, trading in a sideways range. It is currently at US\$0.6170 this morning.

**Commodities:** Increased expectation of a prolonged global shutdown sent oil prices to their lowest in 18 years. WTI crude futures dipped below US\$20 intra-day, although have since recovered slightly to US\$20.3 per barrel. Officials from the US and Russia are due to discuss the situation following an agreement via phone with president's Trump and Putin. Saudi Arabia's energy minister said the country was planning on ramping up exports in May while a report from Facts Global Energy (FGE) said oil refinery runs have been cut by 5 million barrels pre day globally and that the world will run out of crude storage by June at the current rate.

Coal and iron ore prices continued to tread water, despite the plunge in oil prices.

**COVID-19:** The latest WHO coronavirus daily situation report said there were 693,224 confirmed infections globally as at March 30, a daily increase of 58,411. There were 33,106 confirmed deaths, which was 3,215 higher than the previous day.

More positively, there have been tentative signs of progress in the technical battle against the virus. There was news of a new faster testing kit while companies such as Ford and McLaren and Mercedes F1 have begun manufacturing thousands of ventilators. Johnson & Johnson revealed a new vaccine candidate.

Meanwhile, the US has extended its stay-at-home directive until the end of April, marking a shift in President Trump's previous inclination to ease economic pressure by relaxing restrictions by Easter.

**Australia:** Yesterday, the Federal government unveiled further stimulus measures. Prime Minister Scott Morrison announced that more people freshly out of work will be eligible for Centrelink payments. There will also be a boost to the cap on what a partner can earn before the job seeker is ineligible. Partners could earn almost \$80k per year before becoming ineligible for the payment.

A new "JobKeeper" wage subsidy scheme was also announced, giving businesses up to \$1,500 per fortnight per employee to keep people working. This subsidy is the central plank in a \$130 billion economic stimulus package, the third and largest package the Government has announced in response to the coronavirus. Morrison said he expected 6 million Australians would access a so-called JobKeeper payment for the next six months.

**China:** The People's Bank of China (PBoC) pumped more liquidity into its financial sector yesterday. It lowered short-term funding rates and injected 50 billion yuan into the banking system. The cut to interest rates was unexpected, given that officials had previously signalled a neutral stance and offered a sanguine outlook for the economy following the containment of the virus there.

**Europe:** Eurozone business and economic confidence for March fell sharply, but less than estimated. Economic confidence slipped to 94.5 from 103.4. Although consistent with contraction, the full scale of the COVID-19 shock is still to hit the surveys.

**United States:** The Dallas Fed March manufacturing survey plunged to -70 from +1.2, its record low (the GFC low was -59.9). Activity sharply contracted and the outlook worsened.

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

NZ Building Permits Feb prev -2.0% (8:45am)  
JN Jobless Rate Feb exp 2.4% prev 2.4% (10:30am)  
JN Retail Sales Feb exp -1.7% prev 1.5% (10:50am)  
JN Industrial Production Feb exp 0.0% prev 1.0% (10:50am)  
AU Private Sector Credit Feb exp 0.3% prev 0.3% (11:30am)  
EZ CPI Mar exp 0.6% prev 0.2% (8pm)  
CH Composite PMI Mar prev 28.9 (12pm)  
CH Manufacturing PMI Mar exp 44.8 prev 35.7 (12pm)  
CH Non Manufacturing PMI Mar exp 42.0 prev 29.6 (12pm)  
UK GDP Q4 Final exp 0.0% prev 0.0% (5pm)  
EZ Core CPI Mar y/y exp 1.1% prev 1.2% (8pm)  
UK Current Account Q4 exp -£7.0bn prev -£15.9bn (5pm)  
US S&P Core Logic 20-City House Prices Jan exp 0.40% prev 0.43% (12am)  
US MNI Chicago PMI Mar exp 40.0 prev 49.0 (12:45am)  
US CB Cons. Confidence Mar exp 110.0 prev 130.7 (1a m)

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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