

Morning Report

Friday, 3 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,154.3	-2.0%	Last		Overnight Chg			Australia		
US Dow Jones	21,413.4	2.2%	10 yr bond	99.24	-0.02			90 day BBSW	0.30	-0.03
Japan Nikkei	17,818.7	-1.4%	3 yr bond	99.75	0.00			2 year bond	0.22	0.02
China Shanghai	2,914.1	1.7%	3 mth bill rate	99.68	0.00			3 year bond	0.24	0.02
German DAX	9,570.8	0.3%	SPI 200	5,250.0	114			3 year swap	0.35	-0.01
UK FTSE100	5,480.2	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.77	0.09
Commodities (close & change)*			TWI	54.7	-	-	54.0	United States		
CRB Index	124.8	6.3	AUD/USD	0.6141	0.6119	0.6007	0.6064	3-month T Bill	0.06	-0.01
Gold	1,616.9	28.2	AUD/JPY	66.08	65.63	64.40	65.42	2 year bond	0.22	0.02
Copper	4,791.3	-152.0	AUD/GBP	0.4948	0.4930	0.4856	0.4884	10 year bond	0.60	0.01
Oil (WTI)	24.8	4.5	AUD/NZD	1.0305	1.0274	1.0206	1.0239	Other (10 year yields)		
Coal (thermal)	66.2	-0.5	AUD/EUR	0.5570	0.5592	0.5531	0.5583	Germany	-0.43	0.03
Coal (coking)	142.3	-17.4	AUD/CNH	4.3568	4.3530	4.2789	4.3015	Japan	-0.01	-0.02
Iron Ore	81.9	1.3	USD Index	99.02	100.41	99.34	100.08	UK	0.33	0.02

*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: Oil prices surged following a tweet by US President Donald Trump suggesting Saudi Arabia and Russia have agreed to a substantial cut to crude output. Some of the gains were pared after the Kremlin denied the claims.

Initial weekly jobless claims in the US more than doubled to a record 6.65 million. There have been around 10 million initial claims for unemployment in the past 2 weeks.

Share Markets: Equities were broadly higher in volatile trading overnight. Investors weighed higher oil prices with the historic surge in US unemployment claims. The S&P 500 is up 2.3% and the Dow Jones rose 2.2%. Energy stocks led gains. All sub-sectors of the S&P 500 rose, however, the energy sector was the stand-out with a 9.0% increase.

European bourses also rose, albeit see-sawing from gains to losses. The Euro Stoxx 50 closed 0.3% higher.

Interest Rates: Global government bond yields were relatively steadfast in the face of the looming spike in unemployment presaged by a record number of claims for unemployment in the US. The yield on 10-year US treasuries rose 3 basis points to 0.62% while the 2-year yield edged up 1 basis point to 0.22%.

Australian yields were mixed yesterday. The 10-year yield rose 9 basis points to 0.77%, the 3-year bond yield rose 2 basis points to 0.22% while the 90-day bank-bill-swap rate fell 3 basis points to 0.30%.

Foreign Exchange: The US dollar index gained for the second day in a row, edging back above 100 to 100.08. Uncertainty about the extent of the impending global downturn boosted the demand for US dollar backed safe-haven assets.

The euro and yen both weakened slightly. The euro edged down US\$0.0104 to US\$1.0860 and the USD/JPY rose to 107.87.

The Australian dollar was buffeted by concerns over the implications of the coronavirus's spread on the global economy. The Australian dollar is at US\$0.6055 this morning after paring deeper losses from overnight.

Commodities: Oil prices surged following a tweet by US President Donald Trump suggesting Saudi Arabia and Russia have agreed to a substantial cut to crude output. Trump initially tweeted that he had spoken with the Saudi Arabia Crown Prince who had discussed cuts with Russian President Vladimir Putin and that he was expecting output to be cut by 10 million barrels or more. He later tweeted that he was expecting a 15 million barrels per day cut.

A spokesperson from the Russian energy

department said that Russia had not agreed to any cuts and that Putin had not had any meetings with the Saudis. The collective cuts by OPEC+ since the outbreak of the coronavirus has been around 1.7 million barrels per day. WTI oil futures are up more than 20% at US\$24.7 per barrel.

Gold prices rose amid the uncertainty. Gold is currently trading at US\$1,577.2 per ounce, up US\$11.7.

COVID-19: An updated tally of global confirmed COVID-19 cases compiled by Johns Hopkins University showed the number of worldwide cases surpassing 1 million overnight. There have been 51,485 confirmed fatalities, according to the tally.

In Australia, official data from the Department of Health show 5,133 confirmed cases in Australia as at April 2, an increase of 273 compared with the previous day.

The number of new cases in Australia has been holding steady, representing a lower percentage increase in the total per day. It is not yet clear if this signals a slowdown in the pace of community spread, or if it is a reflection of fewer imported cases due to travel bans and border closures. There were 23 deaths reported as of 5am yesterday, according to the official tally.

Australia: In a press conference yesterday, Australia's Prime Minister announced that child care will be free for parents who need it. Australia's childcare sector will receive a \$1.6 billion boost over the next three months, with the Early Childhood Education and Care Relief Package to officially start from April 6. As part of the latest announcement, support will be provided to Australia's 13,000 childcare centres to ensure they remain open. The scheme was developed to complement the JobKeeper payment policy, helping centres pay the wages of early childhood educators even though enrolments have dropped off.

The quarterly business survey published by NAB showed that business confidence fell to -11 in the March quarter, which is the lowest level in 11 years.

In other data, job vacancies in the three months to February fell by 0.1% after rising by 1.2% in the previous three-month period.

Europe: Eurozone producer prices fell by more than expected in February. Producer prices fell 0.6% over the month and 1.3% over the year in February, dragged lower by the Russia-Saudi Arabia oil price war. The ECB has been struggling to lift inflation for several years, well before the latest shock to economic activity caused by the coronavirus

outbreak.

New Zealand: The Reserve Bank of NZ (RBNZ) ordered Australia's big four banks yesterday, which dominate the banking sector in NZ, to stop paying dividends back to their parent banks in Australia, to build up more earnings to protect the NZ economy from the COVID-19 crisis.

United States: Initial jobless claims for the week ending March 21 sky-rocketed to 6.65 million, more than double the previous week's record of 3.31 million. Before the health crisis, weekly claims were totalling 200-300 thousand per week since 2015. The previous weekly record struck in the GFC was 645,000.

With almost 10 million Americans filing for unemployment in the last two weeks alone, Fed policymakers have warned of a deep recession accompanied by a surge in unemployment. Dallas Fed President Robert Kaplan estimated that unemployment could increase to the "low or mid-teens". The February unemployment rate was 3.5% and the peak of the unemployment rate was 10% during the Great Recession.

Today's key data and events:

AU AiG Perf. of Construction Index Mar prev 42.7 (8:30am)
 AU Retail Sales Feb exp 0.3% prev -0.3% (11:30am)
 CH Caixin PMI Composite Mar prev 27.5 (12:45pm)
 CH Caixin PMI Services Mar exp 39.0 prev 26.5 (12:45pm)
 EZ Retail Sales Feb exp 0.1% prev 0.6% (6pm)
 US Non Farm Payrolls Mar exp -100k prev 273k (12:30am)
 US Unemployment Rate Mar exp 3.8% prev 3.5% (12:30am)
 US Non Mfg ISM Index Mar exp 43.0 prev 57.3 (1am)

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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