

Morning Report

Friday, 3 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,032.7	1.7%			Last	Overnight Chg		Australia		
US Dow Jones	25,827.4	0.4%	10 yr bond	99.07		0.02		90 day BBSW	0.10	0.00
Japan Nikkei	22,146.0	0.1%	3 yr bond	99.71		0.00		2 year bond	0.25	0.00
China Shanghai	3,239.5	2.1%	3 mth bill rate	99.86		-0.01		3 year bond	0.25	-0.01
German DAX	12,608.5	2.8%	SPI 200	6,048.0		35		3 year swap	0.23	-0.01
UK FTSE100	6,240.4	1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	-0.01
Commodities (close & change)*			TWI	60.2	-	-	60.4	United States		
CRB Index	140.6	1.5	AUD/USD	0.6913	0.6952	0.6902	0.6926	3-month T Bill	0.14	0.00
Gold	1,770.1	-10.9	AUD/JPY	74.29	74.71	74.18	74.46	2 year bond	0.15	-0.01
Copper	6,072.0	18.3	AUD/GBP	0.5540	0.5558	0.5527	0.5555	10 year bond	0.67	-0.01
Oil (WTI)	40.3	0.5	AUD/NZD	1.0662	1.0674	1.0607	1.0639	Other (10 year yields)		
Coal (thermal)	55.8	1.5	AUD/EUR	0.6144	0.6165	0.6133	0.6162	Germany	-0.43	-0.03
Coal (coking)	129.0	3.9	AUD/CNH	4.8859	4.9132	4.8811	4.8950	Japan	0.04	-0.01
Iron Ore	95.5	0.2	USD Index	97.2	97.3	96.8	97.2	UK	0.19	-0.03

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 7:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: A stronger-than-expected US jobs report lifted sentiment, boosting share markets and the US dollar. However, sentiment was tempered by concerns about rising COVID-19 infections.

Share Markets: US share markets jumped on better-than-expected jobs data, though gains were tempered somewhat by coronavirus concerns. The S&P 500's rally extended for a fourth day and the Nasdaq set another record. The Dow Jones rose 92 points (+0.4%) and S&P 500 index lifted 14 points (+0.5%). The Nasdaq rose 53 points (+0.5%) to a new record high.

The ASX 200 index rose 98 points (or +1.7%) yesterday.

Interest Rates: US 2-year treasury yields rose from a low of 0.16% to 0.17% after the jobs report, and closed 1 basis point lower at 0.15%. Meanwhile, the 10-year yield rose from a low of 0.66% to 0.71% and closed 1 basis point weaker at 0.67%.

The Australian 3-year government bond yields slipped from 0.30% to 0.29% and the 10-year yield fell from 0.96% to 0.93% via 0.98%.

Foreign Exchange: The USD index appreciated after the release of the better-than-expected US jobs data. The AUD/USD fell from an overnight high of 0.6952 to an overnight low of 0.6902 in the wake of the data, but has remained within its trading range of the past three weeks.

Commodities: Oil prices rose after OPEC and its allies agreed to meet over the weekend to discuss the possibility of extending production cuts.

COVID-19: Victoria added 72 new cases yesterday, taking the number of current active cases to 437. NSW added 8 new cases and the NT added 1 case. All other States and the ACT had no new cases yesterday.

Japan is facing a new outbreak with Tokyo confirming 107 new infections yesterday, the highest daily tally in two months in the city. It follows 67 new cases recorded on the previous day.

Meanwhile, coronavirus cases kept creeping up in several US states. Florida's cases and hospitalisations jumped by the most ever, while deaths rose the most in a month. Houston reported a 4.3% jump in ICU patients. On a more hopeful note, New York City plans to reopen its public schools in September.

A United Nations (UN) study estimates that global tourism revenues will fall by up to \$3.3 trillion due to COVID-19 restrictions with the US standing to lose the most.

Australia: The trade surplus increased slightly to \$8.0 billion in May, from \$7.8 billion in April. April's trade surplus was revised significantly lower by \$1.0 billion. In May, exports fell 4.3% while imports recorded a sharper decline of 6.1%. Both exports

and imports have declined rapidly since the onset of COVID-19. Relative to the end of 2019, total exports are down 11.8% and imports are 22.6% lower.

Imports are trending lower as domestic demand contracts and due to the closure of Australia's international border. Exports, while not immune from the global recession, have been more resilient.

Europe: The unemployment rate in the euro area economy rose from 7.3% in April to 7.4% in May – the worst reading since November last year. Several European economies took their first steps to reopening in May, which allowed some workers to return to their jobs. However, the social-distancing measures and ongoing travel restrictions are limited the pace of recovery.

In other data, wholesale pipeline inflation, as measured by producer prices, fell 0.6% in May and collapsed 5.0% in the twelve months to May.

United States: The US economy added 4.8 million jobs in June, the sharpest monthly gain on record, as regions across the US eased social-distancing restrictions and businesses reopened. The outcome was well above consensus expectations for a rise of 3.2 million. It is the second month in a row of better-than-expected payrolls additions. Still, the past 2 months has not yet made up for the record decline in April of 20.8 million.

The increase in payrolls was led by leisure, hospitality and retail, illustrating the effect of the easing of business restrictions in June.

Meanwhile, the unemployment rate fell from May's level of 1.3% to 11.1% in June, which is still at a historically high level and well above the pre-pandemic level of 3.5%. Consensus had expected a fall to 12.5%.

The underemployment rate also fell in June to 18.0%, from 21.2% in May.

However, the improvement in jobs may slow or even stall with the resurgent outbreak of COVID-19 across the US.

A separate weekly report also published overnight showed initial applications for unemployment benefits remained extremely elevated in the week ending June 27. These claims fell by less than expected to 1.43 million last week, from 1.48 million in the previous week. However, claims have been falling every week since early April, marking a steady improvement in the labour market since then.

Average hourly earnings continued to decline in June, falling by 1.2% in the month, after a fall of

1.0% in May.

Other data showed the US trade deficit widened to \$54.6 billion in May, an increase of 9.7% and the widest since December of 2018. Imports slipped 0.9% in the month while exports fell by 4.4%.

The US usually runs a deficit in goods and a surplus in services, but the surplus in services in May shrank to its lowest level since February of 2016 as demand for business services fell and travellers stayed home.

The final reading for durable goods orders in May was revised to a bounce of 15.7%, from the initially reported rise of 15.8%. But manufacturers are likely to struggle to make a more rapid recovery amid a fresh outbreak of the coronavirus and a depressed global economy.

Today's key data and events:

AU AiG Perf of Construction Index Jun prev 24.9 (8:30am)

AU CBA Services PMI Jun F prev 53.2 (9am)

UK GfK Consumer Conf. Jun F exp -29 prev -30 (9:01am)

JN Jibun Services PMI Jun F prev 42.3 (10:30am)

AU Retail Sales May exp 16.3% prev -17.7% (11:30am)

CH Caixin PMI Services Jun exp 53.2 prev 55.0 (11:45am)

EZ Markit Services PMI Jun F exp 47.3 prev 47.3 (6pm)

UK CIPS Services PMI Jun F exp 47.0 prev 47.0 (6:30pm)

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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