

Morning Report

Monday, 4 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,245.9	-5.0%			Last	Overnight Chg		Australia		
US Dow Jones	23,723.7	-2.6%	10 yr bond	99.15		0.02		90 day BBSW	0.10	0.00
Japan Nikkei	19,619.4	-2.8%	3 yr bond	99.75		0.00		2 year bond	0.21	-0.01
China Shanghai	2,997.6	1.3%	3 mth bill rate	99.83		0.00		3 year bond	0.24	-0.01
German DAX	10,861.6	-2.2%	SPI 200	5,230.0		-7		3 year swap	0.28	0.00
UK FTSE100	5,763.1	-2.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	-0.02
Commodities (close & change)*			TWI	57.8	-	-	56.9	United States		
CRB Index	117.6	0.4	AUD/USD	0.6510	0.6511	0.6391	0.6413	3-month T Bill	0.10	0.00
Gold	1,700.4	13.9	AUD/JPY	69.79	69.80	68.49	68.51	2 year bond	0.19	-0.01
Copper	5,090.5	-79.8	AUD/GBP	0.5169	0.5170	0.5129	0.5136	10 year bond	0.61	-0.03
Oil (WTI)	19.8	0.9	AUD/NZD	1.0634	1.0638	1.0575	1.0590	Other (10 year yields)		
Coal (thermal)	52.4	-1.2	AUD/EUR	0.5945	0.5945	0.5834	0.5844	Germany	-0.59	0.00
Coal (coking)	107.8	1.4	AUD/CNH	4.6090	4.6120	4.5596	4.5757	Japan	-0.02	0.01
Iron Ore	79.1	1.7	USD Index	99.1	99.2	98.8	98.9	UK	0.25	0.02

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: Investor sentiment soured on Friday, sending stocks in the US and UK lower. Most European markets were closed for May Day.

US president Donald Trump threatened to issue further tariffs on China, alleging that it is responsible for the coronavirus outbreak.

Share Markets: Most European markets were closed for a public holiday. US stocks fell sharply. The Dow Jones dropped 2.6% and the S&P 500 ended 2.8% lower. Amazon (which reported earnings after Thursday's close) and Apple issued profit warnings due to the coronavirus pandemic while shares in Exxon Mobile slumped after it posted its first quarterly loss in more than 32 years. Trading was open in the UK, where equity investors also succumbed to the negative global mood. The FTSE 100 fell 2.3%.

Interest Rates: US yields traded in a relatively narrow range, despite weak economic data and the prospect of a re-escalation of tensions between the US and China. The US 10-year government bond yield fell 3 basis points to 0.61% while the 2-year treasury note yield was 1 basis point lower at 0.19%.

The US treasury will provide an estimate for borrowing in Q2 this week. Investors will be looking for clues on how the debt for its massive stimulus package will be structured and how much additional

supply of bonds will be generated.

The Australian yield curve flattened on Friday. The 3-year government bond fell 1 basis point to 0.24% while the 10-year yield was 2 basis points lower at 0.87%. The 90-day bank-bill swap rate was unchanged at 0.10%.

Foreign Exchange: Donald Trump's escalated efforts to blame China for the coronavirus pandemic drove down the appetite for risk. The US dollar index moved from gains to losses over the session, ending lower. The yen strengthened while emerging market and commodity-exposed currencies generally weakened. Volumes were relatively thin due to a holiday in Europe. The pound fell but still ended the week stronger against the US dollar.

The Australian dollar trended lower throughout Friday's session as risk sentiment deteriorated. It is trading at US\$0.6414 this morning.

Commodities: Oil posted its first weekly gain in four weeks as OPEC+ production cuts began to take effect. WTI crude futures rose US\$0.94 per barrel to US\$19.78, despite market turbulence in other assets.

Uncertainty around US-China relations left gold prices up by US\$13.92 per ounce to US\$1,700.42.

COVID-19: US president Trump said that drug manufacturer Gilead had received emergency authorisation for its experimental anti-viral drug,

remdesivir. A slowdown in new daily cases was reported in several European countries that had been hard hit by the virus, including Italy, Germany and Spain. Spain began allowing people outside to exercise. Meanwhile, Singapore announced the reopening of some schools and offices and an announcement from Japan about how it will reopen its economy is expected today.

Global coronavirus cases were at 3,548,471 on 3 May including more than 246,000 deaths, according to data from Bloomberg.

According to the Department of Health, there were 6,801 cases in Australia as of yesterday. There have been 95 deaths from the virus in Australia to date. Some States have begun gradually easing social distancing measures, with Victoria an exception.

Australia: Dwelling prices continued to grow in April, despite the widespread restrictions imposed to stop the spread of COVID-19. The 8-capital cities index rose 0.2% in the month. Over the year, the annual pace of growth lifted to 9.7% in April from 8.9% previously.

The monthly gain however, was the weakest increase in nine months, reflecting a softening of housing conditions.

Given that some of the restriction measures included a banning of physical auctions, it was unsurprising that sales turnover fell sharply. Indeed, April sales volumes across the 8 capital cities was less than 40% of the same month a year ago. As we have stated in previous commentary, while buyers may be reluctant given increased uncertainty about the outlook and their employment situations, sellers may also be reluctant to sell unless they are forced to. Therefore, while it was clear that housing activity would drop sharply, it was less apparent that we would see a large scale collapse in prices.

Higher unemployment, falling incomes and a significant slowdown in population growth continue to suggest that a further softening in prices is likely. Investors will be particularly vulnerable as rental vacancies are expected to spike as migration inflows have ground to a halt. CoreLogic also reported a fall in rents in April in all capital cities, except for Perth.

Manufacturing sentiment declined sharply in April, following a surprisingly strong result in March. The AiG performance of manufacturing index fell to 35.8 from 53.7 previously. The relatively robust reading in March was due to a surge in demand faced by food manufacturers in response to panic buying over the period.

Meanwhile, producer prices rose 0.2% in Q1

compared with a 0.3% rise in Q4 last year. Producer price growth slowed to 1.3% over the quarter from 1.4% previously.

Japan: Vehicle sales plunged 25.5% compared with a year earlier in April, falling from -10.2% in March. Vehicle sales took a leg lower in late 2019 following the consumption tax hike and have been further buffeted by measures to contain the spread of the coronavirus.

Europe: Markets were closed for May Day.

United Kingdom: Consumers paid down credit at the fastest rate since records began, with a net of £3.8 billion in loans being repaid in March.

Mortgage approvals fell to 56.2k over the month, down from 73.7k in the February.

New Zealand: Lockdowns had a severe effect on consumer sentiment in April. The ANZ Bank New Zealand consumer confidence index fell a further 20.2% in April to 84.8. The current conditions gauge fell to 73.0 while house price expectations dropped to 0.5% from 4.6% previously.

United States: The ISM manufacturing survey fell to an 11-year low of 41.5 in April, suggesting a significant disruption to manufacturing sector supply chains over the month. Despite the large fall, it was less than the fall to 36.9 expected by the market. The new orders component slumped to 27.1, the lowest outturn since 2008.

Other data showed that construction spending rebounded 0.9% in March following a 2.5% fall in February. The data likely does not fully capture the disruptions caused by lockdowns that were progressively intensified since mid-March.

Today's key data and events:

AU MI Inflation Apr prev 0.2% (11am)

AU ANZ Job Ads Apr prev -10.3 (11:30am)

AU Building Apps Mar exp -15.0% prev 19.9% (11:30am)

EZ Markit Mfg PMI Apr F exp 33.6 prev 33.6 (6pm)

EZ Sentix Investor Conf. May exp -26.0 prev -42.9 (6:30pm)

US Factory Orders Mar exp -9.2% prev 0.0% (12am)

US Durable Goods Orders Mar F prev -14.4% (12am)

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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