bankSA

Morning Report

Friday, 5 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,991.8	0.8%		Last		Overnight Chg		**Australia**		
US Dow Jones	26,281.8	0.0%	10 yr bond	98.93		-0.06		90 day BBSW	0.10	0.00
Japan Nikkei	22,695.7	0.4%	3 yr bond	99.71		-0.01		2 year bond	0.28	0.01
China Shanghai	3,060.0	-0.1%	3 mth bill rate	99.86		0.00		3 year bond	0.27	0.01
German DAX	12,430.6	-0.5%	SPI 200	5,986.0		-14		3 year swap	0.29	0.00
UK FTSE100	6,341.4	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.02	0.05
Commodities (close & change)*			TWI	60.9	-	-	60.6	**United States**		
CRB Index	135.7	0.7	AUD/USD	0.6922	0.6988	0.6883	0.6940	3-month T Bill	0.14	-0.01
Gold	1,714.0	14.3	AUD/JPY	75.39	76.21	74.86	75.73	2 year bond	0.19	0.00
Copper	5,514.3	11.0	AUD/GBP	0.5504	0.5537	0.5494	0.5511	10 year bond	0.82	0.08
Oil (WTI)	37.4	0.0	AUD/NZD	1.0778	1.0791	1.0734	1.0747	**Other (10 year yields)**		
Coal (thermal)	55.4	-1.1	AUD/EUR	0.6161	0.6170	0.6110	0.6122	Germany	-0.32	0.03
Coal (coking)	108.6	0.4	AUD/CNH	4.9284	4.9678	4.9058	4.9324	Japan	0.04	0.02
Iron Ore	95.6	-2.7	USD Index	97.3	97.6	96.6	96.7	UK	0.31	0.03

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 8am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Sentiment was mixed financial markets. It started to fade within share markets, but bond yields were higher as was the Australian dollar and euro. The European Central Bank (ECB) was the main event, which expanded its quantitative easing programme.

Share Markets: The rally in share markets over the past few days fizzled out last night, suggesting investors are beginning to reassess the progress in recovery from COVID-19 shutdown measures. The S&P500 fell 0.3%, while the Dow was flat.

Interest Rates: US bond yields jumped at the longer end of the curve, supported by the large stimulus measures, which would boost bond supply and the hopes of an economic recovery. US 10-year yields rose to their highest since March.

Following the ECB announcement to expand its bond purchases, Italian yields fell significantly – the 10-year yield was down 13 basis points to 1.42% narrowing the spread with German bunds. Spanish, Portuguese and Greek bond yields fell as well.

Foreign Exchange: The risk-on mood continued in currency markets, supporting the euro and AUD. The euro rose after the ECB announced the expansion of its quantitative easing program, reflecting hopes of an improvement in the growth outlook. The US dollar index hit its lowest since mid-March. The Australian dollar touched an intraday high of 69.88 US cents, its highest since early January. While there remains strong positive momentum behind the AUD, an uneven global recovery and extensive geopolitical risks suggests that markets are underestimating the uncertain global outlook.

Commodities: Oil prices were little changed, ahead of a key decision from crude producers on whether to extend output cuts.

COVID-19: The Department of Health has reported 10 new cases over the past 24 hours. Total cases stand at 7,240.

Australia: Retailing and international trade data released yesterday confirmed that the economy contracted sharply in April. Retailing was decimated during the month, falling 17.7%. It was slightly better than the preliminary estimate of -17.9%, but it was still the largest monthly fall on record, with the series dating back to 1982. It followed the strongest gain on record in March.

On a year ago, retailing fell 9.2%, the weakest annual rate in the history of the series.

The stockpiling of food and medical supplies gave way significantly in April.

Hardware, building and garden supplies retailing was the only sub-sector to increase in April, lifting 6.6%, as Australians looked to spruce up their gardens and homes in isolation.

Most areas of spending saw reversals from the sharp increases in March. These included food retailing and "other" retailing. Other retailing includes pharmaceutical, cosmetic and toiletry goods and recreational goods.

The largest falls were in cafes, restaurants & takeaways and clothing, footwear & personal accessories, which were the most impacted by restrictions on business operations, reduced foot traffic and the pullback in discretionary spending.

Some recovery is in prospect, given that restrictions are easing. However, a return to levels prior to the crisis is not expected any time soon.

Separate data revealed that international trade flows declined substantially in April as COVID-19 spread around the globe. Australian imports and exports both recorded dramatic falls. Exports plunged 11.3% (the biggest fall since March 2009) while imports declined 9.8% (the biggest fall since April 1984). The outsized fall in imports led to a reduction in the trade surplus from $10.4 billion in March to $8.8 billion in April. Despite the decline in the trade balance, it remains at a high level by historical standards.

Travel restrictions resulted in a 42.5% decline in services imports, extending the 18.6% decline recorded in March. To date, the travel restrictions appear to have impacted travel imports more than exports. Services exports fell 13.2% in April following a 9.3% decline in March. The ABS has noted that many international students arrived before the travel bans began, and appear to have remained in the country.

The sharp decline in trade may have been partly due to physical movement restrictions in April, however, trade volumes are expected to remain subdued as the world economy struggles through the shock caused by the COVID-19 pandemic. Goods and services imports were down 19.4% annually in April, reflecting weakness in domestic demand that was prevalent before the onset of COVID-19. Exports were 6.5% lower compared with a year ago.

Europe: In its monetary policy meeting last night, the European Central Bank (ECB) expanded its quantitative easing programme. The ECB increased the purchases by 600 billion euros to 1.35 trillion, and extended its bond purchases out to mid-2021. Growth forecasts were revised significantly lower, and it expects a contraction of 8.7% for this year followed by a recovery of 5.2% growth next year. ECB president Lagarde spoke signs of "bottoming out" with the easing of containment measures, but that the improvement has so far been "tepid". It follows a significant 130 billion euro fiscal stimulus package unveiled on Wednesday.

United States: Initial jobless claims fell from 2.1 million to 1.9 million for the week ending May 30, declining for the ninth consecutive week after a peak of 6.9 million in late March. While the fall is suggesting an improvement, the elevated number of claims (still significantly above the sub 300k readings prior to the crisis) points to a further loss in jobs.

Today's key data and events:

AU AiG Perf of Services Index May prev 27.1 (8:30am)

UK GfK Consumer Conf. May F exp -34 prev -34 (9:01am)

JN Leading Index CI Apr P exp 76.3 prev 84.7 (3pm)

AU Foreign Reserves May prev A$63.2b (4:30pm)

US Non-Farm Payrolls May exp -8,000k prev -20,537k (10:30pm)

US Avg Weekly Hours May exp 34.3 prev 34.2 (10:30pm)

US Unemployment Rate May exp 19.5% prev 14.7% (10:30pm)

US Avg Hourly Earnings May exp 1.0% prev 4.7% (10:30pm)

US Participation Rate May exp 60.0% prev 60.2% (10:30pm)

US Consumer Credit Apr exp -$20b prev -$12b (6 June, 5am)

CH Exports May y/y exp -6.5% prev 3.5% (7 June)

CH Imports May y/y exp -7.8% prev -14.2% (7 June)

NZ Building Volumes Q1 prev -0.8% (8 June, 8:45am)

JN GDP Q1 F exp -0.5% prev -0.9% (9:50am)

JN Private Consumption Q1 F exp -0.7% prev -0.7% (9:50am)

JN Business Spending Q1 F exp 1.5% prev -0.5% (9:50am)

JN Current Account Balance Apr prev ¥1971.0b (9:50am)

EZ Sentix Investor Confidence Jun prev -41.8 (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.

Janu Chan, Senior Economist

Ph: 02-8253-0898

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist
Janu Chan
chanj@banksa.com.au
(02) 8253 0898

Economist
Nelson Aston
nelson.aston@banksa.com.au
(02) 8254 1316