Morning Report

Tuesday, 5 May 2020

Equities (close & % change)		
S&P/ASX 200	5,319.8	1.4%
US Dow Jones	23,749.8	0.1%
Japan Nikkei	19,619.4	-2.8%
China Shanghai	2,997.6	1.3%
German DAX	10,466.8	-3.6%
UK FTSE100	5,753.8	-0.2%
Commodities (close & change)*		
CRB Index	118.5	0.9
Gold	1,702.1	1.6
Copper	5,103.3	12.8
Oil (WTI)	21.2	1.4
Coal (thermal)	52.1	-0.9
Coal (coking)	108.0	1.6
Iron Ore	80.0	-0.5

Sydney Futures Exchange (close & change)	Last		Overnight Chg	
10 yr bond	99.17		0.00	
3 yr bond	99.76		-0.01	
3 mth bill rate	99.83		0.00	
SPI 200	5,335.0		17	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	56.9	-	-	56.3
AUD/USD	0.6406	0.6435	0.6373	0.6428
AUD/JPY	68.44	68.72	68.00	68.62
AUD/GBP	0.5131	0.5171	0.5119	0.5167
AUD/NZD	1.0589	1.0645	1.0576	1.0622
AUD/EUR	0.5838	0.5902	0.5815	0.5896
AUD/CNH	4.5702	4.5882	4.5528	4.5830
USD Index	99.2	99.6	99.2	99.5

Interest rates (close & change)		
Australia		
90 day BBSW	0.10	0.00
2 year bond	0.21	0.00
3 year bond	0.24	0.00
3 year swap	0.27	-0.01
10 year bond	0.83	-0.04
United States		
3-month T Bill	0.10	-0.01
2 year bond	0.18	-0.01
10 year bond	0.63	0.02
Other (10 year yields)		
Germany	-0.56	0.02
Japan	-0.02	0.00
UK	0.23	-0.02

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 7:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: It was a mixed session overnight. Concerns continued over escalating tensions between the US and China, but there is also one eye on the easing restrictions globally, which would see global demand improve. Last night, the run of indicators point to a very sharp deterioration in economic activity. Oil prices rebounded and US shares ended the session slightly higher. The US dollar index rose, but AUD was resilient.

Share Markets: US share markets ended slightly higher, but not before trading in the red for most of the session. Shares in Europe were mostly lower, with sharp falls in France, Germany and Spain.

Tech stocks lifted, while higher oil prices boosted energy stocks, although airlines were hit after Berkshire Hathaway announced it had exited the sector.

Interest Rates: US bond yields edged slightly higher. US 10-year yields lifted 2 basis points to 0.63%.

Yields in Australia remain very low. The 3-month bank bill swap rate is just under 0.1%, which largely reflects the significant amount of liquidity in the financial system supported by the Reserve Bank (RBA).

Foreign Exchange: The US dollar index rose, suggesting risk aversion due to concerns over US-China global tensions. The US dollar gained against the euro and GBP. However, the Australian dollar managed to edge higher, despite the broad US dollar weakness. After hitting an intraday low of 63.73 US cents yesterday morning, the Australian dollar has edged higher to 64.29 US cents at the timing of writing.

Commodities: Oil prices were higher, on hopes that production cuts would alleviate the glut of oil and likely on hopes of demand improving as economies begin to reopen. US WTI prices rose 3.1% to US$20.39 a barrel. Gold prices also rose.

COVID-19: Total global cases have topped 3.5 million according to Bloomberg, and new cases stood at 78,704 globally.

In Australia, the Department of Health reported 24 new cases, taking the total number of cases to 6825.

The test will be how much cases could rise after restrictions are loosened in many countries.

Australia: Building approvals retreated 4.0% in March, after a spike of 19.4% in February. The pullback in March was much softer than the deep decline anticipated by consensus.

Since the end of last year, building approvals are down just 1.0%. It is a mild result, given the disruptive impact of the COVID-19 crisis on the economy, including the building industry.

The “other” segment, which includes multi-density dwellings such as high-rise apartments, was the primary driver of the decline in March. This segment fell by 8.2% in the private sector.

The impact of COVID-19 likely to be more adversely felt on building approvals in coming months.

Higher unemployment and depressed incomes will reduce the demand for housing, despite low interest rates providing an offset.

Population growth will also be weaker this year and it remains questionable whether it can return to where it was before the crisis amid border restrictions and higher unemployment.

Separately, the third edition of the ABS's new survey measuring the impact of COVID-19 on businesses in Australia was released yesterday. It showed that an increasing number of firms (72%) anticipated a reduction in cash flow in the next two months, up from 66% who had experienced reduced cash flow in the previous edition of the survey.

53% of firms said that they expected government restrictions on movement would have an adverse impact on their operations in the next two months. The survey revealed that the JobKeeper payment scheme announced by the Federal government on March 30 was impacting employment decisions of some firms. 44% said the scheme had influenced their decision to retain employees and 61% said they had applied. The highest rates of reported JobKeeper applications were among construction companies, with 80% reporting that they had applied.

The sample of firms in the survey was taken from the wider survey on new capital intentions for the March quarter of 2020. Preliminary data from these firms show that 16% of firms downgraded their investment intentions for the 2020-21 financial year between the December quarter of 2019 and the March quarter of 2020.

Meanwhile, ANZ job ads plunged 53.1% over the month in April, suggesting that companies scaled back their hiring intentions sharply.

Europe: The Markit manufacturing index was revised slightly lower from 33.6 to 33.4 in the final estimate for April, still pointing to a significant fall in manufacturing activity.

Confidence among investors remains in the doldrums. Sentix investor confidence improved, but only slightly in May. Following a record low of -42.9 in April the index edged up to -41.8.

United States: Factory orders slumped 10.3% in March, highlighting the sharp demise ahead for manufacturing activity. A further decline could be likely in April when shutdown measures became more widespread. The decline in durable goods orders was confirmed at -14.7%, the largest fall since 2014, and point to a dramatic drop in business spending.

The US Treasury has said it would borrow a record amount of $3 trillion in the second quarter of 2020. By comparison, net borrowing last fiscal year was $1.3 trillion.

Today's key data and events:

AU AiG Construction PMI Apr prev 37.9 (8:30am)

NZ Building Permits Mar prev 4.7% (8:45am)

AU Payroll Jobs & Wages w/e Apr 18 (11:30am)

AU RBA Cash Rate Target exp 0.25% prev 0.25%

EZ Producer Prices Mar exp -1.4% prev -0.6% (7pm)

US Trade Balance Mar exp -$44.2b prev -$39.9b (10:30pm)

US Fed's Evans Speaks (12am)

US ISM Non-Mfg PMI Apr exp 37.8 prev 52.5 (12am)

NZ QV House Prices Apr y/y prev 6.1% (3am)

US Fed's Bostic, Bullard Speak (4am)

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