

# Morning Report

Monday, 6 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,067.5	-1.7%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	21,052.5	-1.7%	10 yr bond	99.26		0.00	90 day BBSW	0.26	-0.04	
Japan Nikkei	17,820.2	0.0%	3 yr bond	99.76		-0.01	2 year bond	0.21	-0.01	
China Shanghai	2,896.6	-0.6%	3 mth bill rate	99.70		0.00	3 year bond	0.24	0.00	
German DAX	9,525.8	-0.5%	SPI 200	5,079.0		46	3 year swap	0.34	-0.01	
UK FTSE100	5,415.5	-1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.76	-0.01
Commodities (close & change)*			TWI	54.0	-	-	54.0	<b>United States</b>		
CRB Index	128.0	3.1	AUD/USD	0.6064	0.6076	0.5979	0.6015	3-month T Bill	0.06	-0.02
Gold	1,618.3	4.0	AUD/JPY	65.42	65.62	64.84	65.21	2 year bond	0.23	0.00
Copper	4,827.8	-56.8	AUD/GBP	0.4884	0.4927	0.4870	0.4920	10 year bond	0.59	0.00
Oil (WTI)	28.3	3.0	AUD/NZD	1.0239	1.0275	1.0200	1.0243	<b>Other (10 year yields)</b>		
Coal (thermal)	66.1	-0.2	AUD/EUR	0.5583	0.5603	0.5538	0.5558	Germany	-0.44	-0.01
Coal (coking)	140.3	-2.0	AUD/CNH	4.3015	4.3143	4.2561	4.2786	Japan	-0.01	0.00
Iron Ore	81.9	1.3	USD Index	100.08	100.85	100.05	100.68	UK	0.31	-0.02

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

**Main Themes:** US non-farm payrolls had its largest decline since 2009, resulting in a 0.9 percentage point increase in the unemployment rate. US shares fell, the US dollar gained, while bonds were contained. Oil prices bounced on hopes of a global deal to cut supply.

**Share Markets:** Share markets were down on the large US job decline. The Dow was down 1.7% while the S&P500 fell 1.5%. That said, falls on Friday was muted compared to some of the large swings witnessed over the past few weeks.

**Interest Rates:** US bonds were relatively contained despite the sharp loss of jobs. It suggests that markets had already priced in a significant loss in jobs. US 10 year yields were little changed at 0.59%.

**Foreign Exchange:** The US dollar index shrugged off the steep job decline, and climbed for the third consecutive session, indicating ongoing strong demand for US dollars. Downside risks to the global economy tend to give the US dollar support. The Australian dollar, which tends to weaken amid global growth concerns, dipped to a low of 59.8 US cents before settling at 60.1 US cents this morning.

**Commodities:** Oil prices rebounded sharply, on hopes of a global deal to cut crude supply. OPEC and its allies are reported to be in discussions to cut oil production by around 10% of worldwide supply, but said that the US would need to contribute to

production cuts.

**COVID-19:** Total cases worldwide hit over 1.1 million according to the World Health Organisation (WHO) situation report for April 5. There were 82,061 new cases globally in the past day, with 32,105 coming from the US. The number of new cases in China has risen slightly to 55.

According to the Australian Department of Health, total confirmed cases nationally stand at 5,687 and there were 139 new cases in the past day. Over the past week, an average of 246 cases has been reported each day.

**Australia:** Retail sales registered their first monthly increase of 2019 in February, expanding 0.5% over the month. On an annual basis, the value of retail sales was 1.8%, the slowest pace of growth since October 2017.

The slow pace of annual growth highlights the weak state of consumer spending before the escalation in the COVID-19 crisis.

Strict social distancing rules were not adopted until March. Progressive travel restrictions in February affected specific sectors exposed to tourism, according to the ABS. Retailers who were not exposed to tourism reported little negative impact.

There were significant increases in spending at supermarkets, pharmacies and on takeaway

services in February, amid early signs of a shift in consumer behaviour in response to the unfolding health crisis. These sectors are expected to see further increases in the months ahead, as consumer spending focuses on essential items.

The AiG construction PMI fell 4.8 points to 37.9 in March, to the lowest since June 2013. Respondents reported a plunge in new orders and activity. The new orders component fell 10.3 points to 34.4 while the activity index fell 3.9 points to 39.1.

**China:** The Caixin services PMI rose to 43.0 in March from 26.5 in February. The rebound in March from February's record low indicates that more services firms reported that their output was higher in March compared with February, which is a positive sign that activity levels are gradually recovering in China. However, it does not say anything about the level of output at firms that have restarted work.

**Europe:** Retail sales jumped 0.9% in February, well exceeding the 0.1% expected increase. The increase might reflect stockpiling – Germany and France both had increases exceeding 1% in February.

Services more broadly, however are facing dire conditions, reflecting the increasing lockdowns across Europe. The Markit index on services was at 26.4 in the final estimate for March, down from 52.6 in February.

**United States:** Non-farm payrolls plummeted 701k in March, the largest decline since 2009, in the last recession. Consequently, the unemployment rate jumped 0.9 percentage points to 4.4%, after hovering at near 50-year lows around 3.5% in the six months prior. The speed and scale of the job decline is alarming, particularly given that since the survey was conducted more of the country has come under lockdown. A record 10 million spike in initial jobless claims over the last two weeks suggests the worst is yet to come, and a more severe increase in the unemployment rate is very likely in April. Most job losses were in leisure and hospitality, which have faced the brunt of social distancing measures.

The ISM non-manufacturing index was surprisingly resilient in March, falling from 57.3 in February to 52.5 in March, (consensus was expecting a sub-50 reading indicating contraction). Nonetheless, the detail painted a more sobering picture, with business activity, and employment sub-indices in contraction territory.

#### Today's key data and events:

AU MI Inflation Gauge Mar prev -0.1% (11am)

NZ ANZ Commodity Price Mar prev -2.1% (11am)

AU ANZ Job Ads Mar prev 0.7% (11:30am)

EZ Sentix Investor Confidence Apr prev -17.1 (6:30pm)

UK Markit/CIPS Construction PMI Mar prev 52.6 (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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