

Morning Report

Monday, 6 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,057.9	0.4%			Last	Overnight Chg		Australia		
US Dow Jones	25,827.4	closed	10 yr bond	99.07		0.00		90 day BBSW	0.10	0.00
Japan Nikkei	22,306.5	0.7%	3 yr bond	99.70		0.00		2 year bond	0.25	0.00
China Shanghai	3,304.7	2.0%	3 mth bill rate	99.87		0.00		3 year bond	0.26	0.00
German DAX	12,528.2	-0.6%	SPI 200	5,999.0		-35		3 year swap	0.23	0.00
UK FTSE100	6,157.3	-1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.90	-0.02
Commodities (close & change)*			TWI	60.4	-	-	60.5	United States		
CRB Index	140.6	closed	AUD/USD	0.6926	0.6948	0.6914	0.6930	3-month T Bill	0.14	closed
Gold	1,772.1	2.0	AUD/JPY	74.46	74.69	74.33	74.52	2 year bond	0.15	closed
Copper	6,021.8	-50.3	AUD/GBP	0.5555	0.5574	0.5547	0.5556	10 year bond	0.67	closed
Oil (WTI)	40.3	closed	AUD/NZD	1.0639	1.0670	1.0610	1.0624	Other (10 year yields)		
Coal (thermal)	55.9	0.1	AUD/EUR	0.6162	0.6183	0.6154	0.6163	Germany	-0.43	0.00
Coal (coking)	129.1	0.1	AUD/CNH	4.8950	4.9117	4.8881	4.8988	Japan	0.03	-0.01
Iron Ore	96.5	1.0	USD Index	97.2	97.4	97.1	97.2	UK	0.19	0.00

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: A key forward-looking indicator of services activity in China rose to a 10-year high on Friday. However, investors continued to worry about rising infections around the world. Independence Day holiday on Friday in the US also meant liquidity was low.

Share Markets: US physical share markets were closed for Independence Day. US share market futures and major European share market bourses dropped on Friday. The Euro Stoxx 50 index dropped 26 points (or -0.8%), the UK FTSE 100 index fell 83 points (or -1.3%) and the German DAX fell 80 points (or -0.6%). European stocks faced selling pressures on word the European Central Bank (ECB) is bracing for a potential rift over how much their emergency bond-purchase program should stay weighted toward weaker economies such as Italy.

On Friday, the ASX 200 index lifted 25 points (or +0.4%). Over last week, the ASX 200 was 154 points higher (or +2.6%).

Interest Rates: US bond markets were shut for Independence Day. Other major global bond yields showed little movement.

Foreign Exchange: Currencies moved in narrow ranges given thin trading with US cash equity and bond markets shut for a national holiday. The US dollar index was weaker in Friday night's trade and the AUD/USD exchange rate was firmer. However,

the AUD/USD pair stuck to a narrow range of 0.6914 and 0.6948 and within its range of much of the past month.

Commodities: Commodity prices were mostly higher after upbeat data out of China on Friday boosted demand.

COVID-19: Worldwide coronavirus cases crossed 11.3 million and the World Health Organisation (WHO) reported a one-day high in global infections over the weekend.

Victoria recorded 74 new infections yesterday. Two more postcodes were added to the restricted list – 3031 and 2051. Also, over the weekend, Victoria's Premier placed 9 public housing buildings in North Melbourne and Flemington, housing more than 3,000 tenants, under a hard lockdown on Saturday afternoon. The total number of infections in these buildings is 27 across more than 12 families. A range of financial support for these tenants was also announced.

Australia: Data on Friday showed the remarkable period in retailing continued in May, as pent-up demand spurred shoppers to stores in earnest following the relaxation of some movement restrictions. Retail turnover rose 16.9% in May, a new record increase following a record decline of 17.7% in April. On an annual basis, the level of turnover was 5.8% higher in May, bouncing back

from a 9.2% fall in April.

All sub-sectors of retailing enjoyed a boost in May. The biggest increase was in sales of clothing, footwear & accessories, which rose by an eye watering 129.2% over the month. But turnover in the sector remained 19.4% weaker on a year ago.

Household-goods retailing has been the dark horse of the COVID-19 pandemic. Turnover rose by 16.6% in May, as consumers continued their lockdown-inspired habits of home improvement.

Eating at home remained popular as well. Food and beverage sales were up 7.2% in May and 12.9% higher over the year. However, the easing of restrictions did result in some celebratory meals out. Cafes, restaurants & catering services posted a 38.8% increase in turnover during the month.

Once the dust settles from the large swings of recent months, we expect the annual rate of growth in retail turnover to turn lower. The stockpiling episode in March will dampen the requirement for some households to purchase essentials while depressed incomes and heightened uncertainty should weigh on discretionary spending.

The Australian Industry Group's performance of construction index rose from 24.9 in May to 35.5 in June. The improvement fell short of 50.0, which means activity in the construction industry is expected to continue to contract.

China: The Caixin purchasing managers' index (PMI) rose to a 10-year high of 58.4 in June, from 55.0. It beat consensus expectations for an outcome of 53.2. The easing of virus-control measures in most parts of China is driving demand. Whilst supply and demand in services recovered, the sub-index measuring the sector's hiring stayed in negative territory for the fifth straight month, as companies remained cautious about expanding hiring.

China's official PMI for services rose to a 7-month high of 54.4 in June. The Caixin PMI is tilted more towards smaller companies while the official one is weighted more towards larger ones.

Europe: ECB's President Christine Lagarde said the euro zone faces two years of downward pressure on prices, but could see a turnaround after that because the virus crisis will accelerate the transformation of the economy. The ECB head said in a webinar on Saturday that the pandemic will spur the pre-existing shift toward greater digitisation and automation, shorter supply chains and greener industries.

United Kingdom: Media reports suggest UK's Prime

Minister Boris Johnson is preparing to pull the plug on Huawei's role in the UK's 5G network. A report from the UK National Cybersecurity Centre concluded that new US sanctions mean the Chinese company will have to use untrusted technology, making security risks impossible to control.

United States: There was no major data released on Friday with the national holiday of US Independence Day.

Today's key data and events:

AU Melb Institute Inflation Gauge Jun prev -1.2% (11am)

AU Job Advertisements Jun prev -17.7% (11:30am)

UK Markit Construc. PMI Jun exp 46.0 prev 28.9 (6:30pm)

EZ Sentix Investor Confidence Jul exp -10.4 prev -24.8 (6:30pm)

EZ Retail Sales May exp 15.0% prev -11.7% (7pm)

US Markit Services PMI Jun Final exp 47.0 prev 46.7 (11:45pm)

US Markit Composite PMI Jun Final prev 46.5 (11:45pm)

US ISM Non Mfg Index Jun exp 50.0 prev 45.4 (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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