Morning Report

Wednesday, 8 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,252.3	-0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	22,653.9	-0.1%	10 year bond	99.11		0.01		90 day BBSW	0.23	-0.01
Japan Nikkei	18,950.2	2.0%	3 year bond	99.76		0.01		2 year bond	0.23	0.01
China Shanghai	2,956.1	2.1%	3 month bill rate	99.69		-0.01		3 year bond	0.25	0.01
German DAX	10,356.7	2.8%	SPI 200	5,190.0		-52		3 year swap	0.38	0.02
UK FTSE100	5,704.5	2.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	0.14
Commodities (close & change)			TWI	53.8	-	-	54.6	**United States**		
CRB Index	128.0	-0.1	AUD/USD	0.6081	0.6208	0.6076	0.6165	3-month T Bill	0.11	0.01
Gold	1,661.0	-13.3	AUD/JPY	66.42	67.67	66.38	67.05	2 year bond	0.26	0.00
Copper	5,022.3	149.8	AUD/GBP	0.4971	0.5032	0.4971	0.4999	10 year bond	0.71	0.04
Oil (WTI)	24.3	0.7	AUD/NZD	1.0255	1.0352	1.0250	1.0325	**Other (10 year yields)**		
Coal (thermal)	63.8	-0.4	AUD/EUR	0.5632	0.5698	0.5631	0.5660	Germany	-0.31	0.12
Coal (coking)	134.1	-0.8	AUD/CNH	4.3265	4.3802	4.3176	4.3601	Japan	0.02	0.00
Iron Ore	82.5	0.3	USD Index	100.6	100.8	99.8	100.7	UK	0.41	0.08

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

Main Themes: Global share markets continued to rise amid optimism that the pace of new daily COVID-19 cases may be slowing. European bourses closed the day higher and key US share market bourses were up more than 3% during trade. The Australian dollar followed equities higher. Commodity prices were mixed, and US government bond yields reversed earlier gains.

Share Markets: US share markets fell in volatile trading, erasing substantial gains as investors assessed slowing rates of hot spot infections. The S&P 500 rose as much as 3.5% and the Dow Jones lifted as much as 4.1%, before closing in the red. The Dow Jones finished the session down 26 points or -0.1% and the S&P 500 index ended 4 points lower or -0.2%.

Interest Rates: The US 2-year treasury yield initially rose from 0.26% to 0.30%, but later retraced to 0.26%. The US 10-year yield similarly tracing 0.72% to 0.78% and back to near 0.72%.

Australian 3-year government bond yields rose from 0.25% to 0.27% and the Australian 10-year yield rose from 0.85% to 0.95%.

Foreign Exchange: The US dollar index fell during the overnight session, from a high of 100.9 to a low of 99.8. The AUD/USD exchange rate tried to break above 0.6200, which represents major resistance. AUD/USD reached as high as 0.6208 before falling back under 0.6200. On March 31, the AUD also briefly broke above 0.6214 before quickly dropping back under 0.6200. It indicates to us that 0.6200 remains a key level of resistance for the AUD. In the very short term, the AUD could continue to hold in a range of 0.6000-0.6200.

Commodities: The world's largest oil producers are inching closer to a supply cut deal after the US said its production will fall dramatically. An agreement hinges on some form of cooperation with America, delegates involved in the talks earlier said. The output drop forecast by the Energy Information Administration could be enough to satisfy Saudi Arabia and Russia. Tass news agency reported that OPEC+ had discussed a three-month reduction starting in May.

COVID-19: The number of confirmed infections rose to 1,423,642 around the world in the past 24 hours, according to data from worldometer. In Australia, the number of infections lifted to 5,919 and the number of deaths to 48 with 93 people remaining in a critical condition.

The UK and New York state had their deadliest days since the pandemic began, though New York's number of new cases slowed. Italy reported its fewest number of new daily infections since March

13.

Several European nations said they planned to ease restrictions. China is set to lift the lockdown on Wuhan today

Australia: The Australian Prudential Regulatory Authority (APRA) announced guidance for Australian banks and insurers to limit dividend payments. APRA has avoided the effective temporary dividend bans implemented in the UK, EU and NZ recently. But it is clearly stating that it is more important to manage capital provisions over dividends.

Ratings agency, Fitch, downgraded Australia's big 4 banks one notch (to A+, from AA-). It also placed them on negative watch, as it assesses the impact of COVID-19 disruptions on the economy and likely impairment to both asset quality and earnings.

The Reserve Bank (RBA) board met yesterday and reaffirmed their package of policies announced on March 19, which including a cash rate of 0.25%, a target for the 3-year government bond yield at around 0.25% and a term funding facility for the banks. These stimulus measures are aimed at keeping funding costs low in the economy.

The RBA noted that there was "considerable uncertainty" to the outlook, which suggests the RBA wants to wait to see how events and how economic developments will play out.

Nonetheless, the RBA stated that "a very large economic contraction" was expected for the June quarter and that "the unemployment rate is expected to increase to its highest level for many years".

The RBA has made it clear again that any lift to the cash rate target will not occur for some time and not until "progress is being made towards full employment and it is confident that inflation will be sustainably within the 2-3 per cent target band".

The Australian Bureau of Statistics (ABS) yesterday released the results of the second edition of a survey highlighting the prevalence and nature of adverse impacts from COVID-19 experienced by businesses in late March/early April. The survey was conducted between 30 March and 3 April. The Federal government's announcement of its third and largest stimulus package to support businesses during COVID-19 on 30 March was the same day the survey collection began.

Sixty-six per cent of surveyed businesses said that they experienced a reduction in cash flow or turnover in the previous two weeks.

Sixty-four per cent of businesses reported a reduction in demand over the previous two weeks.

Many businesses (47%) have also had to make changes to their workforce arrangements. The most common change was the temporary reduction to the working hours of employees.

Thirty-eight per cent of businesses surveyed said they have changed how they deliver their products and services, including shifting their offerings online.

Twenty-four per cent of businesses said they have deferred interest payments on their loans while 26% said they had brought forward investment.

Thirty-eight per cent of businesses said they had renegotiated their property rental agreements.

And 48% reported that government measures to contain the virus, such as social distancing, have impacted their operations.

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The AiG performance of services index plummeted from 47.0 in February to 38.7 in March. It is the lowest level since 2013 and has been below 50 for four consecutive months, signalling contraction. Sales and new orders dragged down the overall index. Many services have been negatively impacted by the restrictions in place to limit the spread of the coronavirus.

The trade surplus narrowed slightly, by $384 million, to a $4.4 billion surplus in February. There were sizeable declines in both exports and imports – falling 4.7% and 4.3%, respectively in the month.

Service exports were among the hardest hit (down nearly 10% in the month), reflecting falling tourism and international student arrivals from China and the aftermath from the bushfires. Poor weather also had a part to play behind the decline in exports, as Cyclone Damien in the Pilbara region hampered iron ore shipments.

Import values were the lowest in over two years.

Job advertisements slumped 10.3% in March, the largest monthly decline since January 2009 during the GFC. It provides a sign of the sharp drop in employment ahead.

Japan: Japan's Prime Minister Abe confirmed the LDP's proposed 7% of GDP stimulus package (almost US$1 trillion) and the staged/limited lockdown of 7 prefectures, including Tokyo.

New Zealand: The Reserve Bank of New Zealand (RBNZ) yesterday announced it had expanded its Large-Scale-Asset-Purchase programme (LSAP), also known as quantitative easing (QE). The RBNZ added $3 billion worth of debt, which comprised of Local Government Funding Agency (LGFA) debt. It takes the total LSAP to $33 billion. The RBNZ notes that the bond purchases have successfully reduced long-term interest rates.

The quarterly survey of business opinion's main index fell to -67.3 in Q1, from -27.7 in Q4.

United States: The US Senate is moving to approve by Thursday up to US$350 billion of small business support via payroll liabilities.

The National Federation of Independent Business (NFIB) optimism index fell 8.1 points to 96.4 in March. It is the largest decline in the survey's history. The report also ended a record 39-month streak of positive small business optimism. The COVID-19 outbreak and regulatory responses to curtail its spread shook the small business sector in March.

In other data, JOLTS job openings fell to 6.9 million in February, from 7.0 million in January. This data is likely to show more of an impact from COVID-19 when the March data is released.

Today's key data and events:

JN Machinery Orders Feb exp -2.9% prev 2.9% (9.50am)

JN Current Account Feb exp ¥3.1trn prev ¥612.3bn (9.50am)

AU Housing Finance Feb (11:30am)

Value of Total exp 1.5% prev 5.0%

Value of Owner occ. exp 2.0% prev 5.0%

Value of Investor exp 1.0% prev 3.6%

US FOMC Minutes of Meeting Mar 15 (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.

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