Morning Report

bankSA

Wednesday, 8 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,012.9	0.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	25,890.2	-1.5%	10 yr bond	99.09		0.00		90 day BBSW	0.10	0.00
Japan Nikkei	22,614.7	-0.4%	3 yr bond	99.71		0.00		2 year bond	0.25	0.00
China Shanghai	3,506.5	0.4%	3 mth bill rate	99.88		0.00		3 year bond	0.25	-0.01
German DAX	12,616.8	-0.9%	SPI 200	5,959.0		-30		3 year swap	0.22	-0.01
UK FTSE100	6,189.9	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.89	-0.04
Commodities (close & change)*			TWI	60.7	-	-	60.5	**United States**		
CRB Index	141.6	0.7	AUD/USD	0.6976	0.6998	0.6922	0.6945	3-month T Bill	0.14	-0.01
Gold	1,794.9	10.2	AUD/JPY	74.90	75.07	74.56	74.70	2 year bond	0.16	0.00
Copper	6,188.3	53.0	AUD/GBP	0.5585	0.5590	0.5533	0.5536	10 year bond	0.64	-0.04
Oil (WTI)	40.5	-0.1	AUD/NZD	1.0647	1.0648	1.0607	1.0609	**Other (10 year yields)**		
Coal (thermal)	59.3	1.3	AUD/EUR	0.6168	0.6183	0.6142	0.6159	Germany	-0.43	0.00
Coal (coking)	118.9	-0.9	AUD/CNH	4.8920	4.9010	4.8639	4.8787	Japan	0.05	0.01
Iron Ore	99.4	1.8	USD Index	96.8	97.2	96.6	97.0	UK	0.18	-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: Renewed concerns among investors about the pandemic's economic impact dominated financial markets overnight. The European Commission slashed its forecasts for the euro zone economy and Germany's industrial production disappointed market expectations. Job openings and hiring data showed an ongoing improvement for the US labour market, but the data was for May. Speeches by several Federal Reserve officials reaffirmed the US central bank will do whatever it takes.

Share Markets: US share markets fell overnight on renewed concerns over the pandemic's economic impact. The Dow Jones fell 397 points (or -1.5%), the S&P 500 index dropped 34 points (or -1.1%) and the Nasdaq retreated 90 points (or -0.9%), but had reached a new intraday peak of 10,519.

Yesterday, the ASX 200 index finished nearly unchanged (down 2 points). In the past 2-3 weeks, the Australian share market has lacked decisive direction with the tensions between a fragile economic recovery and worries about rising infections playing out. Since hitting a bottom on March 23, the ASX 200 has risen around 33%, but remains nearly 16% off its peak.

Interest Rates: Demand for government bonds was underpinned overnight by renewed concerns over the pandemic with cases continuing to accelerate in a number of US states. US 10-year bond yields fell 4 basis points, although 2-year bond yields finished unchanged at 0.16%.

Australian 3-year government bond yields slipped from 0.30% to 0.29% and the 10-year bond yield probed the downside at 0.90%.

Foreign Exchange: The Australian dollar lost around 40 pips against the US dollar after Victoria's government returned metropolitan Melbourne and parts of regional Victoria to full lockdown. However, the AUD/USD pair recovered these losses when European trade opened. Overnight, the AUD/USD continued to keep within recent trading ranges. The overnight range was 0.6922-0.6998.

There is limited domestic data out for the rest of this week, so AUD/USD will continue to take direction from developments on the pandemic and key economic developments overseas.

Commodities: Gold was firmer and oil softer on renewed nervousness about the outlook among investors. However, other commodity prices were mixed.

COVID-19: Yesterday, Victorian Premier Daniel Andrews announced Stage 3 lockdowns would be re-imposed in Victoria for Metropolitan Melbourne and Mitchell Shire Council for six weeks as of midnight tonight. Residents can only leave their homes for work, food, exercise or medical care.

Restaurants and cafes will only be able to serve takeaway and delivery services. Beauty services, entertainment and cultural venues will have to close. School holidays will be extended by one week. It follows a closure to the NSW-Victorian border which took effect as of midnight. This Andrews took this step after Victoria recorded 191 new cases with an additional 154 under investigation.

NSW’s Minister for Health and Medical Research, Mr Brad Hazzard said there was a “possibility but not a high probability” that NSW could be forced back into a lockdown.

Several US states continue to struggle with halting the acceleration of infections. Arizona reported 117 new deaths, a record that brings the state's total to 1,927. Florida's new cases reached 61,360 on a rolling seven-day basis, the highest ever. California's hospitalisations climbed 3.4% to a record 5,989. In Texas, new daily infections jumped by more than 10,000 for the first time.

Australia: The Australian Banking industry announced this morning that loan deferrals could be extended for up to four months for eligible borrowers. It follows a six-month mortgage holiday provided since the start of the crisis, which is due to end in September. Payment holidays are also being granted on small business loans, personal loans and credit cards. The latest figures from the Australian Banking Association (ABA) shows more than 485,000 mortgages have been deferred across Australia since early March. The ABA’s CEO, Anna Bligh, has said this next phase of bank support is designed to avoid a ‘cliff’ for customers in September and give them the breathing space they need to work with their bank and get back on their feet financially.

The Reserve Bank (RBA) Board met yesterday and left policy settings unchanged as widely expected. In the accompanying statement, the RBA used the word “uncertain” or “uncertainty” four times compared to only once in the previous statement. On the domestic economy, the RBA reiterated that the downturn is so far not as severe as earlier expected, and moreover, that conditions have “stabilised recently”. The RBA underscored that the nature and speed of economic recovery remains “highly uncertain”. Indeed, in a note we published last week, we likened the possible shapes of recovery to an alphabet soup.

Since the statement was published (at 2:30pm AEST yesterday), the nascent economic recovery has become more uncertain and fragile after Victoria’s State government returned metropolitan Melbourne and the Mitchell Shire to full lockdown for six weeks. This lockdown means economic activity will be softer in this current September quarter and raises the risk the recession lasts longer, given the size of the Victorian economy. There are the risks of spill-over effects to confidence to other parts of the country. There is also some risk of wider lockdowns in regional Victoria imposed and lockdowns required in other parts of the country if the infection has spread beyond Victoria.

The long shadow the pandemic is casting is changing the way we work, learn and live. The RBA inserted a new sentence around these changes by explaining that the pandemic is prompting many firms to reconsider their business models, including the restructuring of operations.

The RBA’s reaffirms that fiscal and monetary stimulus is likely needed for some time. Moreover, the RBA repeated it stands ready to scale up bond purchases if needed.

On the RBA’s term funding facility, in the past month there has been a step up in its usage by banks, with $15 billion total withdrawals to date versus $6 billion from late March to early June.

Of note, the RBA did not mention the currency. After hitting an 11-month high of 0.7063 on June 10, the AUD/USD exchange rate has pulled back and in much of the past month has stuck to a trading band within around 0.6775 - 0.7005.

The Roy Morgan consumer sentiment index fell slightly for the week ending July 5 to 92.1, from 93.0 in the previous week. The index remains below the critical level of 100.0, suggesting consumers remain pessimistic about the economic outlook.

The AiG performance of services index edged slightly lower in June, from 31.6 in May to 31.5. While the index remains above the low point of 27.1 in April, it suggests a very slow recovery from the nationwide shutdown in that month. It was the seventh consecutive month below the critical level of 50.0, which separates expansion from contraction in activity. Further weakness is also likely as parts of Victoria re-enter lockdown measures this month.

Europe: The European Commission (EC) published fresh economic forecasts overnight, slashing its 2020 and 2021 projections. The EC said the outlook has worsened over the past two months. It expects economic activity to pick up in the second half of this year, though it will remain “incomplete” and “uneven” on the back of social-distancing measures. The EC expects the region to contract by 8.3% this year (from a fall of 7.4% estimated previously), followed by growth of 5.8% in 2021 (down from 6.1% growth estimated previously). The EC’s Vice President warned that the region continues to face many risks, including another wave of infections.

The latest forecasts show that the Italian economy will contract the most among all 27-EU members, by 11.2% this year. France and Spain are also expected to face significant economic contractions this yar, of 10.6% and 10.9%, respectively.

In overnight data published, Germany’s industrial production for June rebounded 7.8%, underwhelming consensus expectations that had centred on a stronger outcome of 11.1% in the month. The lift came after a collapse of 17.5% in industrial production in April.

Japan: Labour cash earnings fell 2.1% in the year to May, after an annual decline of 0.6% in April. The decline in household spending has also accelerated. Household spending shrunk 16.2% in the year to May, after contracting by 11.1% in the year to April. Spending is set to remain under pressure due to the hit to jobs and incomes.

New Zealand: House prices rose by 1.3% in the three months to June and by 7.4% in the year to June, which is only modestly down from an annual growth rate of 7.7% in May. NZ’s housing market so far appears to be defying gravity. NZ’s success in supressing the virus allowed NZ to exit lockdowns early.

United States: Job openings and hires on the last business day in May increased to 5.4 million and 6.5 million, respectively. Hires experienced the largest one-month rise since the series began. Although well below levels (typically above 7 million) over the past few years, May’s level is still above pre-GFC highs. The hire rate climbed to a record high of 4.9% in May, from 3.1% in April. The quit rate rose from 1.4% to 1.6% over the same period. These improvements in the US labour market reflected a limited resumption in economic activity that had been curtailed in March and April due to the pandemic and efforts to contain it.

One of the key take outs from the speeches delivered by Federal Reserve officials overnight was that the US Federal Reserve will do whatever it takes. US Federal Reserve Vice Chairman, Richard Clarida, said the central bank would probably adopt more forward guidance and asset purchases if it needs to prop up the economy further. Clarida added he saw signs the economy was beginning to rebound in May and June, and said a double-dip recession is not the Fed's base case. Atlanta’s Federal Reserve President, Raphael Bostic, warned that widening infections may threaten the pace of the recovery, as it hurts public confidence. Meanwhile, Cleveland's Federal Reserve President, Loretta Mester, noted a "levelling off" of activity in her district and called for more fiscal support.

The US administration is pushing for a new stimulus package of up to US$1 trillion by August 2020, according to news reports citing Vice President Pence’s Chief of Staff.

The US overnight formally quit the World Health Organisation (WHO), giving the United Nations one year’s notice.

Today’s key data and events:

JN Current Account May exp ¥1083.6bn prev ¥262.7bn (9.50am)

US Federal Reserve’s Quarles Speech (3am)

US Federal Reserve’s Daly & Barkin Speeches (4am)

US Cons. Credit May exp -$15.0bn prev -$68.8bn (5am)

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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