Morning Report

Thursday, 9 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,206.9	-0.9%		Last		Overnight Chg		**Australia**		
US Dow Jones	23,433.6	3.4%	10 year bond	99.04		-0.06		90 day BBSW	0.22	-0.01
Japan Nikkei	19,353.2	2.1%	3 year bond	99.74		-0.01		2 year bond	0.22	0.00
China Shanghai	2,950.5	-0.2%	3 month bill rate	99.68		-0.02		3 year bond	0.25	0.00
German DAX	10,332.9	-0.2%	SPI 200	5,248.0		70		3 year swap	0.39	0.01
UK FTSE100	5,677.7	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	0.00
Commodities (close & change)			TWI	54.6	-	-	54.5	**United States**		
CRB Index	129.2	1.2	AUD/USD	0.6165	0.6245	0.6116	0.6226	3-month T Bill	0.16	0.03
Gold	1,647.7	-1.6	AUD/JPY	67.05	67.94	66.48	67.77	2 year bond	0.25	-0.01
Copper	4,979.0	-43.3	AUD/GBP	0.4999	0.5034	0.4970	0.5028	10 year bond	0.77	0.06
Oil (WTI)	26.2	2.6	AUD/NZD	1.0325	1.0358	1.0287	1.0361	**Other (10 year yields)**		
Coal (thermal)	62.7	-1.1	AUD/EUR	0.5660	0.5744	0.5631	0.5736	Germany	-0.31	0.00
Coal (coking)	135.7	1.6	AUD/CNH	4.3601	4.4121	4.3281	4.4035	Japan	0.02	0.01
Iron Ore	81.7	-0.8	USD Index	100.7	100.4	99.9	99.9	UK	0.38	-0.03

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

Main Themes: Investors continued to whet their appetites for a bit more risk overnight. Investors latched on to signs of optimism over the pandemic, despite the World Health Organisation (WHO) cautioning leaders overnight against letting down their guards too early.

Oil prices also spiked as Russia appears poised to make a deep cut in oil production.

The release of the Federal Reserve minutes for last month's two unscheduled meetings sent global bond yields higher.

Share Markets: US share markets surged, as investors latched on to signs of optimism over the pandemic and a spike in oil prices pushed energy stocks higher. At the close, the S&P 500 index added 91 points or 3.4% and the Dow Jones index added 780 points or 3.4%. Since hitting a low on March 23, the S&P 500 is up 22.9% and the Dow Jones is up 26.0%.

Yesterday, the ASX 200 index closed down 45 points or down 0.9%. Since hitting a low on March 23, the ASX200 has increased by 14.5%.

Interest Rates: US government bond yields lifted after the release of the Federal Reserve's minutes for its two unscheduled meetings last month.

The US 2-year government bond yield traded in an overnight range of 0.23%-0.28% before closing 1 basis point lower at 0.25%. It moved 2 basis points higher after the minutes were published. The US 10-year government bond yield traded in a range of around 0.72%-0.78% and closed 6 basis points higher at 0.77%. This yield moved 4 basis points higher after the minutes were released.

Foreign Exchange: In yesterday's morning report, we highlighted that 0.6200 was a key resistance level for the AUD/USD with the AUD's recent attempts to break above 0.6200 proving very brief. But overnight, AUD/USD cleared 0.6200 convincingly to reach an overnight high of 0.6245, which sets AUD/USD up to try and stretch to the next resistance level in the short term at 0.6300. The push higher in the AUD was driven by improved appetite for risk, as investors latch on to optimism over the pandemic. Such optimism is fragile, which means the AUD/USD is still subject to downside risk in coming weeks.

Commodities: Oil prices spiked overnight as Russia appeared ready to make a deep cut in oil production, putting a global deal within reach. Algeria also confirmed that Thursday's OPEC+ meeting will discuss a supply cut of 10 million barrels a day. The statement came as the Russian energy ministry said Russia is ready to reduce output by 1.6 million barrels a day, or about 15%, as part of a deal that includes producers in OPEC+ and beyond.

COVID-19: In Australia, the number of infections lifted by 25 to 6,013 and the number of deaths to 50 with 87 people in a critical condition (according to data from Worldometer). Since the outbreak of the crisis, the highest number of new daily infections in Australia occurred on March 22 with 537. In the past five days, the number of new daily cases has been 200 or less.

The global tally now stands at 1.48 million infections with almost 87,000 deaths (according to data from John Hopkins University).

The coronavirus claimed a record number of victims in the UK and in the hard-hit US States of New York and New Jersey. The number of new cases in Italy and Spain crept up after several days of declines.

The WHO cautioned countries against lowering their guards and encouraged greater solidarity among world leaders to help fight the virus.

Australia: Credit ratings agency, S&P, reaffirmed Australia's AAA sovereign rating, but placed Australia on negative watch. This was extended to the individual States rated AAA with financial markets expecting the non-AAA States will also soon be placed on negative watch.

Data published yesterday showed that home lending took a step backwards in February. The value of owner-occupier lending weakened 5.9% in the month and the value of lending to investors dropped 1.9%. It was the first drop in owner-occupier lending in nine months.

The value of total lending across owner occupiers and lenders fell 6.2% in February (excluding refinancing).

In normal circumstances, we would be wary of concluding that one month of decline was the beginning of a weakening trend. However, activity in the housing market is set to soften substantially and this is the just the start.

Stay-at-home restrictions, banning of on-site auctions and public open inspections will deter potential buyers. Although private inspections and online auctions are still allowed, housing activity is likely to be impacted. Moreover, uncertainty about the economy and substantial job losses will further dent demand to buy dwellings.

Europe: Forecasts of deep recessions were released from France's central bank and Germany's Institute for Economic Research.

European Central Bank (ECB) President Christine Lagarde renewed her plea for a strong fiscal response to the economic impact of the coronavirus, urging European Union (EU) governments to get over differences as they prepare for a second round of talks. Talks last night broke down, as EU finance ministers failed to agree on a €500 billion-euro package to mitigate the economic impact of the pandemic. In an emergency teleconference, finance chiefs couldn't reconcile their contrasting visions for the steps needed to help European economies recover. A new call is scheduled for Thursday.

Two officials familiar with the discussion said the main reason for the breakdown was a dispute between the Netherlands and Italy over the conditions attached to the potential use of credit lines from the euro area's bailout fund to finance stimulus needed to cushion the blow from the pandemic. Ministers also sparred over the wording of a joint statement hinting at the possible issuance of joint debt to finance the response.

Three main proposals are being discussed to weather the crisis: employing the European Stability Mechanism, the euro-area's bailout fund, to offer credit lines worth up to 2% of output of the bloc's members; the creation of a pan-European Guarantee Fund to be managed by the European Investment Bank that could mobilise more than €200 billion in liquidity for companies; and an €100 billion employment reinsurance scheme.

The French government also put forward a plan that would create a temporary reserve worth 3% of EU gross domestic output, have a lifetime of as long as 10 years, and would be funded by the joint issuance of debt to mutualise the cost of the crisis. The plan is controversial as it resembles an idea backed by several euro-area countries for so-called coronabonds – joint debt instruments that would ease pressure on highly indebted countries like Italy and, to a lesser extent, Spain and France. While Germany has said that it supports measures to bolster an economic recovery, it opposes the proposals that would see member states sharing debt. Other countries such as the Netherlands and Austria also oppose joint issuance.

Japan: Core machinery orders rose by 2.3% in February, following a lift of 2.9% in January. The rise in February was unexpected with consensus expecting a drop of nearly 3% in the month. Some virus-related demand played a role in February's rise. The increase was concentrated in sectors such as paper products, information & communication electronics and wholesale and retail trade. This likely reflects a response to increasing needs to work remotely and shop online. Even so, the hit to growth from the pandemic is likely to weigh on the outlook for business investment.

In other data, Japan's current account surplus widened in February to ¥2378.1 billion, from ¥1626.8 billion.

New Zealand: Business confidence plunged to a record low of -73.1 in April, from 63.5 in March. The sub-indices of employment, investment and prices notably recorded significant declines.

United States: The White House's top health advisers are developing medical criteria for safely reopening the US economy in coming weeks should trends hold steady. US President Trump said the economy will open much sooner rather than later, and is pressing staff to expedite planning. Moreover, Director of the US National Institute of Allergy and Infectious Diseases, Anthony Fauci, said the start of a turnaround in the fight against the virus could come after this week.

The US Federal Reserve a short time ago released minutes of the two meetings last month, held on March 3 and March 15. The Federal Reserve Open Market Committee (FOMC) cut the federal funds rate by a half percentage point after the first meeting and by a full percentage point to 0-0.25% after the second. The minutes reveals that officials viewed the economy as "having deteriorated sharply" in recent weeks, requiring a "forceful" response. All FOMC members saw economic activity as likely to decline in the coming quarter and viewed downside risks to the economic outlook as having "increased significantly".

While some FOMC members worried that the public might view the Fed's tools as limited after the second rate cut and a few members thought a large rate cut might send an overly negative signal about the economy, most officials backed the 100 basis points cut at the mid-March meeting.

In discussions about quantitative easing, officials noted it was important to stress in communications that the actions were designed to support the smooth functioning of markets, not as a stimulus measure.

Fed officials agreed that "the unpredictable effects of the coronavirus outbreak were a source of major downside risks to the economic outlook". They highlighted the degree to which other factors out of the Fed's control would influence the timing and speed of any recovery, including the success of containment measures and fiscal policy.

FOMC officials judged that it would be best to maintain low rates until policymakers were confident that the economy had weathered recent events and was on track to achieve the FOMC's maximum employment and price stability goals.

In political developments overnight, Joe Biden is now the presumptive Democratic presidential nominee. Bernie Sanders dropped out of the race after suffering a series of primary defeats across the country, clearing the field for the former Vice President. Biden must now bring together often discordant factions within the party to try and defeat US President Trump during a health crisis that has all but eliminated public events and dramatically curtailed in-person voting. Biden leads Trump 49%-41% in a head-to-head race, a Quinnipiac poll found.

World: The World Trade Organisation (WTO) presented two scenarios for global trade this year and next. Both scenarios were weak.

The more optimistic view of the two scenarios has trade falling 13% in 2020 and rebounding 21% in 2021. And has global GDP contracting by 2.5% in 2020 and growing by 7.4% in 2021.

The more pessimistic view has trade cratering as much as 32% this year with a 24% bounce back next year. And world GDP shrinking by 8.8% in 2020 and expanding by 5.9% in 2021.

Today's key data and events:

AU Reserve Bank Financial Stability Review (11:30am)
JN Machine Tool Orders Mar y/y prev -29.6% (4pm)
UK Monthly GDP Feb exp 0.1% prev 0.0% (4pm)
UK Industrial Production Feb exp 0.1% prev -0.1% (4pm)
UK Construction Output Feb exp 0.3% prev -0.8% (4pm)
UK Visible Trade Bal. Feb exp £-6.0bn prev £-3.7bn (4pm)
US Producer Prices Mar exp -0.4% prev -0.6% (10:30pm)
US Initial Jobless Claims Apr 4 exp 5.50mn prev 6.65mn (10:30pm)
US UoM Cons. Sentiment Apr Prel exp 75.0 prev 89.1 (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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