

Morning Report

Thursday, 9 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,920.3	-1.5%			Last	Overnight Chg		Australia		
US Dow Jones	26,067.3	0.7%	10 yr bond	99.09			-0.02	90 day BBSW	0.10	0.00
Japan Nikkei	22,438.7	-0.8%	3 yr bond	99.71			-0.01	2 year bond	0.25	0.00
China Shanghai	3,567.5	1.7%	3 mth bill rate	99.88			0.00	3 year bond	0.25	0.00
German DAX	12,494.8	-1.0%	SPI 200	5,941.0			50	3 year swap	0.20	-0.02
UK FTSE100	6,156.2	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.87	-0.02
Commodities (close & change)*			TWI	60.5	-	-	60.4	United States		
CRB Index	142.0	0.4	AUD/USD	0.6945	0.6986	0.6927	0.6981	3-month T Bill	0.13	-0.01
Gold	1,808.9	14.0	AUD/JPY	74.70	74.96	74.51	74.90	2 year bond	0.16	0.00
Copper	6,233.0	44.8	AUD/GBP	0.5536	0.5545	0.5523	0.5534	10 year bond	0.66	0.02
Oil (WTI)	40.9	0.3	AUD/NZD	1.0609	1.0626	1.0589	1.0620	Other (10 year yields)		
Coal (thermal)	55.1	-1.0	AUD/EUR	0.6159	0.6165	0.6142	0.6161	Germany	-0.44	-0.01
Coal (coking)	115.1	-3.9	AUD/CNH	4.8787	4.8895	4.8640	4.8858	Japan	0.03	-0.01
Iron Ore	102.7	3.3	USD Index	97.0	97.1	96.4	96.5	UK	0.18	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: Investor sentiment was little changed overnight with a dearth of major economic data. The US Federal Reserve's Mester flagged that US economic data in the past week or so has been levelling off and warned more fiscal stimulus might be needed. Share markets rose, bond yields were mixed and the US dollar index was weaker.

Share Markets: Technology shares pushed US share market indexes higher overnight, as investors looked past geopolitical tensions and virus concerns. The Dow Jones rose 177 points (or +0.7%), the S&P 500 index lifted 25 points (or +0.8%) and the Nasdaq jumped 149 points (or +1.4%). Yesterday, the ASX 200 index lost 93 points (or -1.5%), which is the third consecutive day of losses.

Interest Rates: US 2-year treasury yields finished unchanged and the 10-year yield closed 2 basis points higher.

The Australian 3-year government bond yield traded around 0.29%, while the 10-year yield bounced off 0.89% to 0.92%.

Foreign Exchange: The US dollar index fell overnight, which helped the Australian dollar firm against the US dollar. The AUD tried to stretch towards the 0.7000 handle against the USD for the second time in recent days (the first was on July 7). The AUD/USD continues to remain stuck in a range

of 0.6777-0.6998 that it has broadly traded within for the past three weeks.

Commodities: Oil and gold prices advanced overnight.

COVID-19: Last night at midnight, Stage 3 restrictions began in Metropolitan Melbourne and the Mitchell Shire Council for six weeks. Yesterday, there were 134 new infections in Victoria. There are now 860 confirmed active cases.

NSW's Premier yesterday she was considering setting restrictions on towns like Albury or Moama to stop the infection spreading more widely in NSW. There were 8 new infections in NSW yesterday with 7 in hotel quarantine. Two possible cases in Albury are still under investigation.

The number of US infections overnight topped 3 million, more than a quarter of the global total. Arizona and Florida continued to report increases, albeit at levels below their seven-day averages. US President Trump also ramped up pressure on schools to reopen, threatening to withhold federal funding to districts that do not and attacking the Centre for Disease Control's reopening guidelines as "very tough & expensive."

Australia: Federal Treasurer, Josh Frydenberg, said yesterday there would be another phase of income support to be announced as part of his economic and fiscal update, which will be announced on July

23. We anticipate this will include an extension of the JobKeeper scheme, although it is possible the extended scheme will be smaller in size and/or become more targeted.

Frydenberg also said he is considering bringing forward the next phase of planned personal income tax cuts. The first stage of the income tax cuts has already been implemented. The second stage, which is scheduled to begin in July 2022 extends the upper income threshold at which the 19% tax rate applies to \$45,000, and at which the 32.5% tax rate applies from \$90,000 to \$120,000. We would welcome the acceleration of the timing of personal income tax cuts given the challenging conditions still faced by consumers and businesses. The personal income tax cuts would help household balance sheets and lift consumer spending, which has been affected by rising unemployment and lower household incomes.

Europe: Germany's Chancellor, Angela Merkel, addressed the European Union (EU) Parliament in her role as President of the EU. The address was ahead of the Eurogroup Summit this week and the specially arranged European Commission Summit at the end of next week. Merkel stressed the need for the EU to work together towards a Recovery Fund (referring to €500 billion, not €750 billion) and budget agreement. She also noted the lack of progress on a post-Brexit trade deal and thus the need for the EU to prepare for a no-deal outcome

Japan: The current account surplus widened in May to ¥1.18 trillion, from ¥262.7 trillion in April. Within the trade balance, exports plunged 28.9% and imports dropped 27.7%.

United Kingdom: Chancellor of the Exchequer Sunak announced his post-pandemic lockdown Summer Statement to support jobs and the economy overnight. The £30 billion "Plan for Jobs" package contained only a few items which had not been floated in the media since the weekend.

United States: The Federal Reserve's Vice Chair for Supervision, Randal Quarles, sees more challenges ahead for the financial system. He said the pandemic will "inevitably involve an increase in non-performing loans and provisions as demand falls and some borrowers fail".

Federal Reserve Bank of Cleveland President Loretta Mester said overnight that recent data on the reaccelerating spread of the coronavirus in the US has raised additional downside risks for the economic recovery just underway.

Mester added she expects a full economic recovery

to be a long way off, and more fiscal stimulus may be needed. Mester noted that activity started to come back pretty well since reopening in May, but over the past week or so, there's been some levelling off.

Atlanta's Federal President Raphael Bostic earlier made similar remarks, telling reporters that more policy action may be needed if the recovery continues to level off.

Consumer credit fell \$18.3 billion in May, after collapsing \$70.2 billion in April.

Today's key data and events:

JN Core Machinery Orders May prev -12.0% (9:50am)

AU Housing Finance May (11:30am)

Investor Value exp -10.0% prev -4.2%

Owner Occupier Value exp -10.0% prev -5.0%

Total Home Loans exp -10.0% prev -5.0%

CH CPI Jun y/y exp 2.5% prev 2.4% (11:30am)

CH PPI Jun y/y exp -3.2% prev -3.7% (11:30am)

US Initial Jobless Claims w/e Jul 4 exp 1375k prev 1427k (10:30pm)

US Wholesale Trade May exp 4.5% prev -16.9% (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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