

Thursday, 11 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,148.4	0.1%	Last		Overnight Chg			Australia		
US Dow Jones	26,990.0	-1.0%	10 yr bond	99.08		0.08	90 day BBSW	0.10	0.00	
Japan Nikkei	23,125.0	0.1%	3 yr bond	99.72		0.00	2 year bond	0.28	0.00	
China Shanghai	3,085.6	-0.4%	3 mth bill rate	99.92		0.03	3 year bond	0.27	0.00	
German DAX	12,530.2	-0.7%	SPI 200	6,063.0		-66	3 year swap	0.28	0.00	
UK FTSE100	6,329.1	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.02	-0.03
Commodities (close & change)*			TWI	61.2	-	-	60.9	United States		
CRB Index	139.2	0.8	AUD/USD	0.6955	0.7063	0.6933	0.6996	3-month T Bill	0.16	0.00
Gold	1,738.7	23.4	AUD/JPY	74.92	75.61	74.73	74.94	2 year bond	0.17	-0.04
Copper	5,887.3	132.0	AUD/GBP	0.5465	0.5516	0.5453	0.5487	10 year bond	0.73	-0.10
Oil (WTI)	39.0	-0.6	AUD/NZD	1.0689	1.0729	1.0667	1.0710	Other (10 year yields)		
Coal (thermal)	53.2	-0.8	AUD/EUR	0.6135	0.6188	0.6116	0.6149	Germany	-0.33	-0.02
Coal (coking)	113.0	-2.4	AUD/CNH	4.9523	4.9716	4.9100	4.9344	Japan	0.03	0.01
Iron Ore	100.5	-0.6	USD Index	96.7	96.5	95.7	96.1	UK	0.27	-0.07

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon. Data as at 8:00am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: All eyes were on the Federal Reserve last night, which suggested interest rates will remain near zero for some time, and would maintain bond purchases. The Fed's cautious outlook weighed on share markets, while bond yields and the US dollar fell.

Share Markets: Share markets turned negative last night after the Federal Reserve released its weak assessment of the outlook. It was a volatile session, but the Dow closed 1.0% lower, and the S&P500 fell 0.5%. Banks dragged down the index, weighed down by the prospect of yield curve control. Higher tech stocks however, boosted the Nasdaq which managed to gain 0.7%.

Interest Rates: Yields on US treasuries fell after the Federal Reserve suggested interest rates will stay near zero levels for some time and bond purchases will remain in place. US 10-year yields fell 10 basis points to 0.73%. Yields on 2-year notes fell 4 basis points to 0.17%.

Foreign Exchange: The US dollar index weakened on the cautious view from the Federal Reserve, hitting its lowest since early March. The Australian dollar is continuing to hover around 70 US cents, gaining support from the weaker US dollar.

Commodities: Oil prices were mixed, despite data showing crude inventories reaching a record high. Gold prices rose after the Fed's indicated it was likely to maintain a very easy monetary policy

stance.

COVID-19: There were 105,621 new cases in the past 24 hours, taking cases globally to 7,145,539. The World Health Organisation (WHO) raised concerns about the increase in cases in Latin America.

In Australia, the Department of Health reported 7 new cases taking the total to 7,276.

Australia: The impact of COVID-19 on the economy is weighing on the outlook for housing. New home lending (excluding refinancing) declined 4.8% in April. The decline in lending was not as bad as feared, given the weight of COVID-19 restrictions in the month (similar to other recent housing indicators - building approvals and dwelling prices). However, the Australian Bureau of Statistics (ABS) has reported that April loan commitments largely reflected loan applications submitted in March, before major restrictions were introduced.

With housing turnover sharply lower and the loss of jobs and incomes and uncertainty over the outlook suggests that home lending will likely remain weak in coming months.

Owner-occupier lending (excluding refinancing) fell 5.0% in April. However, refinancing surged 13.8% in April, the biggest monthly rise since January 1990.

Lending to investors fell 4.2%. It was the fourth consecutive monthly fall in investor lending. COVID-

19 has brought a wide array of uncertainty for investors. Rising vacancy rates and concerns on the impact of slower migration flows on population are likely factors weighing on investor demand.

In separate data released yesterday, the Westpac-Melbourne Institute consumer sentiment index rose 6.3% to 93.7 in June. The index is at its highest since February, and has fully recovered from the massive fall over March and April. Consumers are increasingly encouraged by the containment of COVID-19 and the lifting of restrictions. The index is still suggesting consumers are pessimistic, but indicates that a recovery is likely to be underway.

China: The pace of inflation slowed in the year to May to 2.4%, from an annual rate of 3.3% in April. Wholesale inflation shrunk 3.7% in the year to May, suggesting deflationary pressures in the pipeline.

New Zealand: Manufacturing activity volumes dropped 1.7% in Q1, driven by the adverse impact from COVID-19.

United States: In its policy meeting yesterday, the FOMC maintained its commitment of keeping official interest rates at between 0-0.25%, and asset purchases of around \$120 billion per month. In the Fed's projections, the majority of FOMC members expect to keep interest rates at near zero levels since at least 2022. The Fed talked of "considerable risks" over the medium-term.

The median forecasts of FOMC members have GDP contracting 6.5%, and the unemployment rate is expected to reach 9.3% for the end of 2020.

In his press conference, Powell said that the May payroll report could mark the low point for the labour market, but highlighted uncertainty and that it would take some time to restore the lost jobs due to the pandemic. On other policy measures, the FOMC received a briefing on yield curve control and that discussions will continue at upcoming meetings. Powell said that its effectiveness was an "open question".

Consumer prices declined 0.1% in May, and have declined for three consecutive months. Annual inflation eased further from 0.3% in April to 0.1% in May, the weakest since 2015. Weak oil prices and the plunge in demand for goods and services are keeping price growth subdued.

Today's key data and events:

UK RICS House Price Bal. May exp -24% prev -21% (9:01am)

JN BSI Large All Industry Q2 exp -38.4 prev -10.1 (9:50am)

AU Consumer Inflation Expectations Jun prev -10.1 (11am)

US Producer Prices May exp 0.1% prev -1.3% (10:30pm)

US Initial Jobless Claims Jun 6 exp 1550k prev 1877k (10:30pm)

US Import and Export Prices May (10:30pm)

US UoM Cons. Sentim. Jun Prel. exp 75.0 prev 72.3 (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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The Detail

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