

Monday, 11 May 2020

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |             |                      |             | Interest rates (close & change) |       |       |
|--|----------|-------|--|---------|-------------|----------------------|-------------|---------------------------------|-------|-------|
| S&P/ASX 200                              | 5,391.1  | 0.5%  |  |         | <b>Last</b> | <b>Overnight Chg</b> |             | <b>Australia</b>                |       |       |
| US Dow Jones                             | 24,331.3 | 1.9%  | 10 yr bond                               | 99.07   |             | -0.05                | 90 day BBSW | 0.10                            | 0.00  |       |
| Japan Nikkei                             | 20,179.1 | 2.6%  | 3 yr bond                                | 99.76   |             | 0.00                 | 2 year bond | 0.21                            | -0.02 |       |
| China Shanghai                           | 3,034.6  | 0.8%  | 3 mth bill rate                          | 99.86   |             | 0.00                 | 3 year bond | 0.23                            | -0.02 |       |
| German DAX                               | 10,904.5 | 1.3%  | SPI 200                                  | 5,405.0 |             | 3                    | 3 year swap | 0.23                            | 0.00  |       |
| UK FTSE100                               | 5,936.0  | 1.4%  | FX Last 24 hrs                           | Open    | High        | Low                  | Current     | 10 year bond                    | 0.89  | -0.04 |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 56.8    | -           | -                    | 57.6        | <b>United States</b>            |       |       |
| CRB Index                                | 124.7    | 2.2   | AUD/USD                                  | 0.6496  | 0.6548      | 0.6493               | 0.6523      | 3-month T Bill                  | 0.09  | -0.01 |
| Gold                                     | 1,702.7  | -13.4 | AUD/JPY                                  | 69.06   | 69.73       | 69.02                | 69.59       | 2 year bond                     | 0.16  | 0.02  |
| Copper                                   | 5,248.5  | 74.8  | AUD/GBP                                  | 0.5256  | 0.5278      | 0.5244               | 0.5260      | 10 year bond                    | 0.68  | 0.04  |
| Oil (WTI)                                | 24.7     | 1.2   | AUD/NZD                                  | 1.0670  | 1.0689      | 1.0608               | 1.0628      | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                           | 52.9     | 0.0   | AUD/EUR                                  | 0.5997  | 0.6035      | 0.5992               | 0.6022      | Germany                         | -0.54 | 0.01  |
| Coal (coking)                            | 114.8    | 5.8   | AUD/CNH                                  | 4.6069  | 4.6379      | 4.6039               | 4.6274      | Japan                           | 0.00  | -0.01 |
| Iron Ore                                 | 85.6     | 4.6   | USD Index                                | 99.9    | 99.9        | 99.4                 | 99.4        | UK                              | 0.24  | 0.00  |

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

**Main Themes:** US payrolls lost 20.5 million and the unemployment rate lifted to 14.7%. It was however, better than the consensus estimate. Markets may have also been cheered by signs of easing conflict between China and the US. US shares and bond yields were higher. The US dollar was down on the session. AUD mostly held above 65 US cents.

**Share Markets:** Optimism as the US jobs report was not as bad as feared drove US shares higher – the Dow lifted 1.9%, while the S&P500 rose 1.7%.

**Interest Rates:** A lift in sentiment saw yields on US treasuries rise after the US jobs report. The US 10-year yield edged 4 basis points higher to 0.68%.

**Foreign Exchange:** The US dollar index initially lifted straight after the jobs report, but then fell, likely reflecting the improvement in risk appetite. The Australian dollar remained resilient, and is continuing to hold above 65 US cents.

**Commodities:** Oil prices rose, on hopes of further cuts to production and on easing lockdown restrictions around the world. The number of drilling rigs in the US fell to a record low. Gold prices fell as risk appetite improved.

**COVID-19:** Total cases globally have topped 4 million according to the John Hopkins University. New cases as of 9 May stood at 85.9k, and have continued to trend sideways over the past month. A cluster of cases in China's north east has resulted

in a lock down of the city of Shulan. The UK has announced a limited easing of restrictions, but warned that it “the first careful steps to modify our measures” and was “not the time simply to end the lockdown”.

In Australia, the Department of Health reported 14 new cases as of 3pm yesterday.

On Friday, Prime Minister Scott Morrison announced a three-step plan to reopen most of Australia by July. He outlined the plan following a meeting with the National Cabinet which involves winding back restrictions in stages, with each subject to a “cooling off period”.

In stage one, some restaurants and stores will be allowed to reopen and the size limits of groups will be slightly loosened.

Stage two involves the further relaxation of public gathering sizes (of up to 20 people) and the reopening of gyms, cinemas, galleries and beauty therapists.

The final stage, which is expected to be reached in July, involves life returning to a much closer to normal standard. Gatherings of up to 100 people will be permitted and many workplaces can resume normal operation.

The prime minister and chief medical officer stressed that strict hygiene measures will still need to be followed throughout the three stages.

Implementation of the winding back of measures will be left to the States to administer.

**Australia:** The RBA released its Statement on Monetary Policy (SoMP) on Friday, outlining its forecasts for the economic outlook.

Governor Lowe had previously flagged a large downgrade to forecasts in a recent speech. The SoMP confirmed that the RBA is expecting a 10% contraction in GDP from peak to trough, and for GDP to contract 6% in 2020 before rebounding by 6% in 2021.

The Bank expects headline inflation to decline 1% in the year to the June quarter, its first annual decline since the 1960s.

The COVID-19 pandemic is expected to have a dramatic impact on the labour market, including a peak unemployment rate of 10% in the June quarter. The RBA expects the unemployment rate to recover faster than in previous downturns, but progress is still expected to be gradual. The unemployment rate is forecast to remain above 6% in June 2022.

A unique feature of the RBA's forecasts published today was the different scenarios the RBA presented for the outlook. It highlights the significant uncertainty surrounding forecasts, particularly around what the recovery would look like.

In the base-line scenario, it assumes that the current domestic containment measures remain in place for most of the June quarter, and most restrictions will be lifted by the end of the September quarter. Large public events and gatherings are expected to be limited for longer, and international border closures are expected to remain in place until the end of the year.

The containment of the virus in Australia and the easing of some restrictions suggest that risks are tilted towards measures being unwound sooner rather than later. The Prime Minister's plan to reopen the economy by July is encouraging, but there remains some risk of infections rising and some restrictions needing to be reimposed.

**Japan:** Household spending fell by 6% in March compared with a year earlier, the fastest fall in five years. The coronavirus was spreading in Japan in March, however, the government had not yet declared a state of emergency. Household consumption has been under pressure before the coronavirus pandemic due to the sales tax hike and lacklustre economic growth.

**United Kingdom:** GfK consumer confidence for April, was revised slightly from -34 to -33, but it was still the lowest since 2008.

**United States:** Non-farm payrolls plunged an unprecedented 20.5 million in April, sending the unemployment rate to 14.7% from 4.4% previously. It was better than the consensus estimate for a 22 million decline, and an unemployment rate of 16%, but it was still the worst result since the series began in 1948. Job losses were across all industries with leisure and hospitality the hardest hit. With the some parts of the economy beginning to restart, it is unlikely to get worse from this point. However, with considerable uncertainty about a re-escalation of COVID-19 infections, there remains a risk that more temporary layoffs would become more long lasting.

Minneapolis Federal Reserve President Kashkari said that the US government should provide more targeted assistance so that it could provide support over a longer period.

A "phase-1" trade deal between the US and China looked to go ahead. A joint statement said that both sides agreed to meet their obligations under the agreement. However, Trump later said that he was "very torn" about whether to tear up the Phase-1 deal, after the pandemic.

#### Today's key data and events:

NZ Retail Credit Card Spending Apr prev -3.9% (8:45am)

NZ ANZ Business Confidence May P prev -66.6 (11am)

UK BOE's Breden Speaks (10pm)

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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