

Tuesday, 16 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,719.8	-2.2%			Last	Overnight Chg		Australia		
US Dow Jones	25,763.2	0.6%	10 yr bond	99.08				90 day BBSW	0.10	0.00
Japan Nikkei	21,531.0	-3.5%	3 yr bond	99.73				2 year bond	0.27	0.00
China Shanghai	3,029.2	-1.0%	3 mth bill rate	99.84				3 year bond	0.24	-0.01
German DAX	11,911.4	-0.3%	SPI 200	5,876.0			141	3 year swap	0.26	-0.01
UK FTSE100	6,064.7	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.86	-0.05
Commodities (close & change)*			TWI	59.9	-	-	59.4	United States		
CRB Index	134.8	0.5	AUD/USD	0.6825	0.6925	0.6777	0.6919	3-month T Bill	0.15	-0.01
Gold	1,725.2	-5.6	AUD/JPY	73.29	74.34	72.65	74.29	2 year bond	0.19	0.00
Copper	5,761.8	19.3	AUD/GBP	0.5453	0.5501	0.5427	0.5485	10 year bond	0.72	0.02
Oil (WTI)	37.1	0.8	AUD/NZD	1.0606	1.0708	1.0582	1.0685	Other (10 year yields)		
Coal (thermal)	53.6	0.6	AUD/EUR	0.6070	0.6118	0.6034	0.6109	Germany	-0.45	-0.01
Coal (coking)	116.4	2.5	AUD/CNH	4.8345	4.8960	4.8091	4.8925	Japan	0.01	0.00
Iron Ore	100.5	-1.7	USD Index	97.1	97.4	96.6	96.7	UK	0.21	0.00

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: The US Federal Reserve announced that it would begin purchasing corporate bonds, sparking a rally in stocks and corporate debt. Market sentiment was mixed before the announcement, as investors weighed news of rising new COVID-19 cases in China and in some parts of the US.

Share Markets: US stocks closed higher in volatile trading. Sentiment was chiefly supported by the Fed's announcement that it would begin purchasing corporate debt on the secondary market. The announcement reversed a sombre start for equities, which were languishing amid concerns over rising COVID-19 cases. The S&P 500 closed up by 0.8%, after trading as much as 2.5% lower during the start of the session. The Dow Jones closed 0.6% higher.

Locally, the ASX 200 started the week on a soft note, declining 2.2% yesterday. Sentiment was downbeat following a correction in risky assets at the tail-end of last week and was further fuelled by a weaker-than-expected recovery in Chinese activity data.

Interest Rates: US government bond yields erased early falls following the announcement that the Fed would begin buying corporate debt. The US 10-year yield rose 2 basis points to 0.72% as investors moved into riskier assets. The 2-year yield was unchanged at 0.19%.

The Australian yield curve flattened yesterday. The 10-year yield fell 5 basis points to 0.86% while yields at the shorter end of the curve was relatively unchanged.

Foreign Exchange: The US dollar swung into negative territory as risk sentiment improved. The US dollar index is trading lower by 0.69 this morning at 96.66, falling from highs of 97.39 during the session (before the Fed's announcement).

The Australian dollar has been a major mover over the past 24 hours. It continued its correction from last week during local trading hours yesterday, pressured lower by weaker-than-expected Chinese activity data and speculation of worsening Australia-China trade tensions. The AUD touched a low of US\$0.6777 before going on a tear overnight to be up by 0.7% this morning at US\$0.6919.

Commodities: Oil reversed early losses to trade strongly higher following a risk-on shift in general market sentiment and amid signs of improving demand and declining production. WTI crude futures closed up by US\$0.8 per barrel at US\$37.1.

Iron ore futures slipped yesterday despite data showing that China produced a record 92.27 million tons of steel in May as authorities look to ramp up construction and stimulate the economy. In focus was a report in the Global Times (a state-owned Chinese media outlet) which warned that iron ore

may become the target of trade barriers and that the onus was on the Australian government to ensure a stable trading environment.

COVID-19: Data compiled by Bloomberg show total cases up 130k in the past 24 hours to 7.97 million worldwide. The same data show an increase of 49 cases in China, mostly linked to the outbreak reported in Beijing.

News outlets have reported that new outbreaks in the US have some states considering whether or not to pause re-openings. Texas, Florida, Arizona and North Carolina have all reported a rise in new COVID-19 cases in recent days.

The Australian Department of Health said there were 15 new cases confirmed in Australia in the past 24 hours.

Australia: There was a record drop in the number of short-term visitor arrivals to Australia in April, falling 99.3% from March. Residents returning from short-term trips also had a record drop in April and were down 96.8% from the previous month.

Yesterday, the Australian Bureau of Statistics (ABS) released the fifth edition of the household impacts of COVID-19. The survey was conducted May 26-29. A fewer proportion reported that they had a job in the latest survey at 63.0%. This was down from 64.2% earlier in early May, and down from 66.2% in early March. It points to further weakness in the labour market ahead of the key labour force release on Thursday. Tomorrow we will also receive weekly payroll data.

China: Economic activity is continuing to recover in China after lockdown measures were imposed in late January-February of this year. Growth in industrial production edged up from an annual rate of 3.9% to 4.4%. The increase was less than consensus was expecting.

Retail sales were still in decline, but improved from an annual rate of -7.5% in April to -2.8% in May. The data highlight a steady, but slow recovery in the economy. Both industrial activity and retail spending were below expectations, and suggest that a weak global economy and cautious consumers are preventing a stronger recovery.

China is providing an early example of what recovery could look like post-lockdown.

A renewed outbreak in Beijing suggests that confidence could remain fragile and also undermine the current recovery.

Europe: The trade surplus plunged in April to €1.2 billion, down from €25.5 billion in the previous

month. Exports fell by much more than imports amid widespread lockdowns. Exports declined 29.3% compared with a year earlier while imports fell by 24.8%.

United States: The Federal Reserve announced that it will begin buying corporate bonds, expanding operations in its Secondary Market Corporate Credit Facility (SMCCF). The SMCCF was established in March, and but to date has only purchased exchange traded funds. The Fed said that its buying strategy will be to follow a diversified market of US corporate bonds created expressly for the facility. News sources have suggested that the Fed built the index internally, however, a spokesperson couldn't immediately say whether the details will be made public. US stocks rose immediately following the announcement, while corporate bond yields fell.

The Federal Reserve's Kaplan expressed cautious optimism about the economy and discussed the possibility of yield curve control. Similar comments about the Fed's willingness to be accommodative were reiterated by Daly.

Meanwhile, economic data beat estimates. The New York Fed Empire manufacturing index rebounded to -0.2 in June from -48.5 in May. Future business conditions recorded a sharp rise to 56.5 from 29.5 previously. The state of New York was one of the first, and hardest hit, states by the coronavirus outbreak, but it has been one of the first states to re-open.

Today's key data and events:

NZ WBC-MM Consumer Confidence Q2 prev 104.2 (7.00am)

AU RBA Board Meeting Minutes Jun (11.30am)

AU ABS Dwelling Prices Q1 prev 3.9% (11.30am)

AU Weekly Payrolls May 30 (11.30am)

UK ILO Unemployment Rate Apr exp 4.7% prev 3.9% (4pm)

EZ German CPI May y/y final exp 0.6% prev 0.6% (4.00pm)

EU ZEW Expectations Jun prev 46 (7.00pm)

US Retail Sales May exp 8.0% prev -16.4% (10.30pm)

US Industrial Prod'n May exp 3.0% prev -11.2% (11.15pm)

US Business Inventories Apr exp -1.0% prev -0.2% (12.00am)

US NAHB Housing Market Index Jun exp 45 prev 37 (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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