Morning report

Friday, 17 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,010.9	-0.7%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	26,734.7	-0.5%	10 yr bond	99.11		0.01		90 day BBSW	0.10	0.00
Japan Nikkei	22,770.4	-0.8%	3 yr bond	99.70		0.00		2 year bond	0.26	0.00
China Shanghai	3,364.7	-4.5%	3 mth bill rate	99.88		-0.01		3 year bond	0.27	0.00
German DAX	12,875.0	-0.4%	SPI 200	5,990.0		14		3 year swap	0.21	-0.01
UK FTSE100	6,250.7	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	0.01
Commodities (close & change)*			TWI	60.8	-	-	60.8	**United States**		
CRB Index	140.8	-0.4	AUD/USD	0.7009	0.7013	0.6963	0.6970	3-month T Bill	0.10	-0.03
Gold	1,797.2	-13.1	AUD/JPY	74.96	75.10	74.68	74.77	2 year bond	0.15	-0.01
Copper	6,385.0	-112.5	AUD/GBP	0.5568	0.5576	0.5549	0.5551	10 year bond	0.62	-0.01
Oil (WTI)	40.7	-0.5	AUD/NZD	1.0663	1.0681	1.0651	1.0664	**Other (10 year yields)**		
Coal (thermal)	57.9	-0.8	AUD/EUR	0.6142	0.6142	0.6116	0.6124	Germany	-0.47	-0.02
Coal (coking)	111.9	0.0	AUD/CNH	4.8942	4.9000	4.8733	4.8759	Japan	0.03	-0.01
Iron Ore	107.4	-1.8	USD Index	96.0	96.4	95.9	96.3	UK	0.14	-0.03

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: Risk-off sentiment prevailed overnight amid weak US labour market data and lacklustre Chinese retail sales.

Share Markets: US equities fell, unable to break the shackles from a weak lead from Europe and Asia and compounded by worse-than-expected US labour market data. The Dow Jones fell 0.5% while the S&P 500 fell 0.3%, ending two straight daily rises.

Tech shares led the decline, although trading volumes were lighter than usual. Netflix shares fell in late trading after it reported fewer new subscribers than the market was expecting.

The ASX 200 ended yesterday down by 0.7%. Most equity bourses in the region turned south following the release of Chinese activity data that showed retail sales data remaining sluggish in June, despite a domestic economic recovery underway more broadly.

Interest Rates: Bond yields fell amid the risk-averse mood. The US 10-year treasury yield fell 1 basis point to 0.62% and the 2-year yield was also 1 basis point lower at 0.15%.

The Australian yield curve remained broadly unchanged. The 10-year yield stood at 0.88% yesterday while the 3-year bond yield is at 0.27%.

Foreign Exchange: The US dollar strengthened while riskier currencies lost favour. The US dollar index rose to 96.3.

The Australian dollar is currently trading at US$0.6970 this morning – near the lower end of the session's range.

Commodities: Oil prices ended a two-day rising streak as the likelihood of weaker demand dawned on investors following generally weak economic data and rising COVID-19 cases. WTI futures fell US$0.5 per barrel to US$40.7.

COVID-19: Australia recorded 330 new COVID-19 cases yesterday, according to the Department of Health. 317 cases were recorded in Victoria while NSW recorded 10 new cases. The death toll rose by two to 113 across Australia yesterday.

The number of cases globally rose to 13.7 million yesterday, according to data compiled by Bloomberg while the number of deaths stood at 586.4k.

In the US, Colorado and Arkansas became the latest States to require masks to be worn in public and New York placed additional restrictions on restaurants and bars.

Australia: Employment surged 210.8k in June, regaining nearly a quarter of the jobs lost in the two months prior. The labour market benefited from the easing of restrictions and the re-opening of many businesses.

The increase in employment failed to prevent the unemployment rate rising from 7.1% in May to 7.4% in June, the highest since November 1998. The lift was a result of a large proportion of people returning to the workforce, after leaving over the previous two months.

The participation rate jumped from 62.7% in May to 64.0% in June. The participation rate is still much lower than its pre-pandemic levels. Had the participation rate held its March level of 65.9% in June, the unemployment rate would have exceeded 10%.

All States and territories recovered jobs in June, except for the NT. The recovery was uneven and correlated with the speed of easing restrictions across the country. NSW regained around 30% of the jobs lost over April and May. At the other end of the spectrum, Victoria regained just 15% of jobs lost over the two-month period, the smallest proportion of all States.

The breakdown between full-time and part-time work further highlights some underlying weakness in the labour market. The increase was entirely driven by part-time work while full-time work declined. Part-time jobs jumped 249k in June, while full-time employment declined another 38.1k. Full-time jobs have declined for four months straight, totalling a loss of 388k over the four-month period to June.

The economy is still facing a significant headwind with COVID-19, particularly given the renewed lockdown measures currently in place in metropolitan Melbourne and the Mitchell Shire. As such, the unemployment is likely to rise further. There are further downside risks with the threat of further restrictions in NSW given a growing cluster of cases in Sydney.

China: GDP bounced back 11.5% in Q2 following a 10.0% plunge in Q1. On an annual basis, economic activity returned to growth, up 3.2% in Q2 following a 6.8% contraction in Q1. It was above the consensus estimate of a 2.4% increase. The sharp reversal reflects China's success in containing COVID-19 and subsequently returning output closer to capacity – particularly industrial output.

Monthly indicators released yesterday reveal that the reopening momentum in factory output is carrying through to Q3. Industrial production increased 4.8% over the year in June, up from a 4.4% rise in May.

The fall in fixed asset investment compared with year ago lessened to 3.1% in the first half of the year, compared with a 6.3% decline in the first five months.

Meanwhile, the worrying contraction in retail spending continued, highlighting the risk that consumer spending may be slow to recover even if COVID-19 becomes well-contained and the economy is allowed to reopen. Retail sales missed expectations, falling 1.8% over the year in June following a 2.8% drop in May.

Supportive fiscal and monetary policy and continued suppression of the virus are supporting China's economic recovery. A renewed surge in worldwide COVID-19 cases, particularly in the US, presents a downside risk to this recovery. In particular, reduced global demand threatens the outlook for industrial production.

Europe: The European Central Bank (ECB) left its main refinancing rate at 0% overnight and maintained its commitment to buy €1.35 trillion in bonds per month. ECB Chief Christine Largarde struck a dovish tone, commenting that the ECB will not let monetary policy be constrained in the fight against the economic impact of COVID-19.

United Kingdom: The 3-month unemployment rate remained at 3.9% in May, beating market expectations for an increase to 4.2%. The UK government has introduced a furlough scheme (similar to JobKeeper) which is estimated to cover 9.4 million employees and has kept the unemployment rate of rising further. The number of jobless claims fell by 28.1k in June after surging 566.4k in May.

Britain's National Cyber Security Centre said that organisations involved in vaccine development in multiple countries had been targeted by hackers "almost certainly" linked to Russian state intelligence. Russia denied the claims.

United States: Initial weekly jobless claims were higher than expected, totalling 1.30 million in the week ending July 11, following a 1.31 million increase in the previous week. Initial claims have improved from a peak of 6.87 million in late March, but they remain more than double the peak in weekly claims of 660k during the GFC. Continuing claims fell slightly to 17.34 million as of July 4, down from 17.76 million previously. The stalling recovery in initial weekly claims is an ominous sign for the labour market, which is being buffeted by a surge in COVID-19 in some areas, prompting authorities in some States to re-impose lockdowns or delay re-openings.

More positively, separate data showed retail sales rose by a further 7.5% in June following an 18.2% increase in May. Spending benefitted from the relaxation of lockdowns in many States during May and June, while stimulus payments to the unemployed have supported incomes. The federal stimulus is set to end this month and combined with the increase in COVID-19 infections injects a note of caution to the outlook for consumer spending.

Meanwhile, the Philadelphia Fed Business Outlook survey fell to 24.1 in July from 24.7 in June. The fall was driven by a decline in the Six-Month Outlook which fell to 36.0 from 66.3 previously as COVID-19 concerns soured sentiment. However, there was a pickup in New Orders to 23.0 in July from 16.7 in June.

The US said that Russia was attempting to hack into US companies and universities to steal COVID-19 vaccine research. Attorney General William Barr also accused China of hacking.

Today's key data and events:

NZ BusinessNZ Mfg PMI Jun prev 39.7 (8:30am)
EZ Construction Output May prev -14.6 (7pm)
EZ CPI Jun F exp 0.3% prev 0.3% (7pm)
EZ CPI Core Jun y/y F exp 0.8% prev 0.8% (7pm)
US Building Permits Jun exp 6.1% prev 14.4% (10:30pm)
US Housing Starts Jun exp 21.2% prev 4.3% (10:30pm)
US U. of Mich. Sentiment Jul P exp 79 prev 78.1 (12am)
US U. of Mich. Current Jul P exp 86.8 prev 87.1 (12am)
US U. of Mich. Expectations Jul P exp 74 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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