Morning report

Wednesday, 18 March 2020

Equites (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)		
S&P / ASX200	5293.4	5.8%		Last	Overnight Chg			**Australia**		
Dow Jones	21237.4	5.2%	10 yr bond	98.89	-0.14			10 year bond	1.05	0.12
Nikkei	17011.5	0.1%	3 yr bond	99.52	-0.05			3 year bond	0.52	0.05
Hang Seng	23263.7	0.9%	3 month bill	99.50	0.00			90 day BBSW	0.57	-0.02
Shanghai	2779.6	-0.3%	SPI 200	5279	440			**United States**		
DAX	8939.1	2.3%	FX Last 24 Hours	Open	High	Low	8:00 AM	10 year bond	1.07	0.34
FTSE 100	5294.9	2.8%	TWI	54.1	-	-	53.7	2 year bond	0.50	0.14
Commodites (Close & Change)			AUD/USD	0.6116	0.6149	0.5956	0.5998	3-month T Bill	0.20	-0.02
CRB Index	130.3	-2.4	AUD/JPY	64.83	65.82	63.91	64.52	**Other (10 year yields)**		
Gold	1528.3	14.4	AUD/GBP	0.4984	0.5022	0.4936	0.4976	Germany	-0.43	0.03
Copper	5290.5	-169.5	AUD/NZD	1.0111	1.0127	1.0018	1.0103	Japan	0.01	0.01
Oil (WTI)	27.0	-2.0	AUD/EUR	0.5468	0.5508	0.5423	0.5454	UK	0.55	0.12

Data as at 8:00am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg, Refinitiv.

Main Themes: Extreme market volatility continued overnight. Investors weighed uncertainty about the rapid spread of the coronavirus with a global wave of fiscal stimulus. Equity markets rebounded but oil prices slid lower. The Australian dollar fell to a post-GFC low, breaching 60 US cents.

Plans for a large fiscal stimulus package were outlined by US President Trump, and could include cash payments to households within the next two weeks. Various European countries also outlined fiscal packages that would have seemed hyperbolic just months ago.

The Philippines shut down its financial markets amid a broader shutdown of the mainland Luzon region. It is the first country so far to halt trading. There is expected to be a significant disruption to payments and business processing operations.

Share Markets: US share markets reversed early falls to end strongly higher. Buoyed by the announcement of a large forthcoming US fiscal stimulus programme, the S&P500 closed up 6% while the Dow Jones rose 5.2%. Equity markets have been volatile, not only between sessions but intra-day as well. The S&P500 trading range spanned from a small loss at the start of the session to being up more than 7% at one point. The best performing sectors were defensive, such as consumer staples and utilities, highlighting the continued uncertainty among investors.

European bourses jumped, but shares in Latin America were mixed. Investors weighed the announcement of a global wave of stimulus with the rapid spread of the coronavirus.

Yesterday the ASX200 rallied 5.8% in its best day on record. The gain wasn't enough to reverse Monday's 9.7% plunge. Back-to-back records in both directions highlights the difficulty that financial markets are having quantifying the impact of the coronavirus's economic impact.

Interest Rates: The US yield curve steepened significantly amid new support measures from the Fed. The Fed re-enacted its crisis-era Commercial Paper Funding Facility (CPFF) to shore up tightening credit markets. The operation involves the New York Fed buying commercial debt from banks and large corporations and in return those entities lend to smaller businesses. It said that the treasury department would provide US$10 billion of credit protection to the central bank.

The US 10 year treasury yield jumped 32 basis points to 1.07% while the 3-month treasury bill fell 2 basis points to 0.20%.

The Australian yield curve was also steeper yesterday. The 10-year bond yield rose 12 basis points to 1.05% and the 90-day bank bill swap yield fell 2 basis points to 0.57%.

Foreign Exchange: The US dollar rose against most of its peers, with the Australian dollar the main decliner. The US dollar index rose 1.498 points to 99.565 as investors sought out the most liquid assets. The Australian dollar's position as a proxy for global growth and the outlook for commodities meant that it suffered. It dipped below US$0.6000 to a low of US$0.5956 overnight, and was trading at around US$0.5988 this morning. The outsized fall in the AUD left it perilously close to parity with the New Zealand dollar. At one point it was trading at just 1.0018 New Zealand dollars.

Commodities: Crude oil prices fell even lower overnight amid a combination of drastically reduced demand and an escalating price war between Saudi Arabia and Russia. WTI crude oil futures fell 5.5% to US$27.0 per barrel. Analysts are expecting the over-supply of oil to continue, leading to bulging oil inventories and even more downward pressure on prices.

Gold prices rallied for the first time in six sessions. The price of gold rose by US$14.4 per ounce to US$1528.3.

COVID-19: The number of confirmed cases globally rose to 187,000 overnight and the number of deaths eclipsed 7,500.

Australia: The NSW and Western Australian State governments have both announced fiscal stimulus packages. In NSW, spending and tax cuts worth $2.3 billion included $700 million for the medical response to the coronavirus. The remaining $1.6 billion was for economic support measures, including $450 million to waive payroll tax for business with payrolls of up to $10 million for three months. It also includes $80 million worth of fees and charges to be waived for small businesses and $250 million for public schools and sate-owned buildings.

In Western Australia, a $607 million package was announced, and granted up to 20 days paid leave for public servants to deal with coronavirus-related issues.

The minutes of the RBA board meeting on March 3 highlighted the rapid shift in financial markets in the wake of the COVID-19 pandemic. Board members were increasingly concerned about the economic fallout from the spread of COVID-19. Since the meeting, the outbreak has worsened and the RBA has already introduced measures to address liquidity issues and ensure the effective functioning of financial markets. The RBA also released a statement on Monday it was ready to provide further policy measures to be announced on Thursday. We expect the RBA will cut interest rates again to their effective lower bound of 0.25%. From there, further monetary policy easing measures are likely to take the form of quantitative easing, and include the purchasing of government bonds.

ABS house prices rose 3.9% in the December quarter, which was the strongest quarterly gain in three years. Other data have indicated further gains into the March quarter. Low interest rates have continued to boost demand, but the ongoing escalation of the coronavirus and containment measures suggest that housing demand will face some weakness.

Japan: Industrial production was revised up from 0.8% to 1.0% in the final estimate for January, however, much like business activity around the world, there are downside risks for the outlook.

New Zealand: Consumer confidence deteriorated in the March quarter, from 109.9 to 104.2, indicating growing worries about the economy at the beginning of the year.

United Kingdom: The UK government announced a massive rescue package of loans and grants for businesses in an attempt to minimise the impact of the coronavirus on the UK economy. The package includes £330 billion of government-backed loans for struggling businesses that need to pay rent or suppliers (equivalent to 15% of UK's GDP). This loan funding will also be increased if needed. It also includes £20 billion of tax cuts and grants for businesses this financial year. The package also includes a three-month mortgage payment holiday for borrowers affected by the virus. Shops and restaurants will not have to pay business rates this year.

In a coordinated move, the Bank of England (BoE) said it will set up a new lending facility for affected larger businesses.

In a press conference, UK's Prime Minister Boris Johnson said that "we must act like any wartime government and do whatever it takes to support our economy."

Europe: Spain announced a fiscal stimulus package of €200 billion, which is the biggest on record. It is package that is split between guarantees, direct subsidies and private funding via the Spanish government.

In addition, Italy announced another €25 billion of support for the economy together with a mortgage moratorium and loan guarantees. Italy is also mulling a post virus expansion plan.

Separate data showed that investors' expectations slumped in March. The ZEW survey of expectations for Germany and the Eurozone both fell to -49.5, near their post-GFC lows.

United States: The Trump administration unveiled a proposal for a US$850 billion stimulus package to fight the economic impact of the coronavirus. The programme could include payments of up to US$1,000 for households which President Trump said he wanted rolled out in 2 weeks. Other measures include US$50 billion for airlines and US$250 billion for small business loans.

Economic data for February showed that consumer spending was already beginning to slow before the impact of the coronavirus. Retail sales fell 0.5% over the month following a revised 0.6% increase in January. Consumer spending had been a bright spot in the US economic data. The weaker footing for household consumption ahead of the coronavirus's impact raises the prospect of a US recession in the first half.

Today's key data and events:

NZ Current Acc't Q4 exp –NZ$2.8bn prev -$6.4bn (8.45am)
AU WBC Leading Index Feb prev -0.46% (10.30am)
AU Retail Sales Feb prelim. prev -0.3% (11.30am)
EZ Trade Balance Jan exp €19.2bn prev €22.2bn (9.00pm)
US Housing Starts Feb exp -4.3% prev -3.6% (11.30pm)
US Building Permits Feb exp -3.2% prev 9.2% (11.30pm)

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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