

Thursday, 19 March 2020

| Equities (Close & % Change) | | | Sydney Futures Exchange (Close & Change) | | | | | Interest rates (Close & Change) | | |
|---|---------|--------|--|--------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P / ASX200 | 4953.2 | -6.4% | Last | | Overnight Chg | | | Australia | | |
| Dow Jones | 19898.9 | -6.3% | 10 yr bond | 98.66 | | -0.23 | | 10 year bond | 1.19 | 0.14 |
| Nikkei | 16726.6 | -1.7% | 3 yr bond | 99.56 | | 0.04 | | 3 year bond | 0.51 | -0.01 |
| Hang Seng | 22291.8 | -4.2% | 3 month bill | 99.51 | | 0.01 | | 90 day BBSW | 0.61 | 0.04 |
| Shanghai | 2728.8 | -1.8% | SPI 200 | 4834 | | -445 | | United States | | |
| DAX | 8441.7 | -5.6% | FX Last 24 Hours | Open | High | Low | 8:00 AM | 10 year bond | 1.20 | 0.20 |
| FTSE 100 | 5080.6 | -4.0% | TWI | 53.7 | - | - | 53.0 | 2 year bond | 0.54 | 0.08 |
| Commodities (Close & Change) | | | AUD/USD | 0.5998 | 0.6027 | 0.5699 | 0.5771 | 3-month T Bill | 0.02 | -0.19 |
| CRB Index | 120.3 | -9.9 | AUD/JPY | 64.58 | 64.83 | 61.69 | 62.40 | Other (10 year yields) | | |
| Gold | 1486.0 | -42.3 | AUD/GBP | 0.4976 | 0.5052 | 0.4922 | 0.4967 | Germany | -0.23 | 0.20 |
| Copper | 5144.0 | -146.5 | AUD/NZD | 1.0103 | 1.0156 | 0.9977 | 1.0054 | Japan | 0.07 | 0.06 |
| Oil (WTI) | 20.5 | -6.5 | AUD/EUR | 0.5454 | 0.5476 | 0.5272 | 0.5286 | UK | 0.79 | 0.24 |

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: Panic continued in financial markets, as markets continued to worry about the impact of the coronavirus. There were further major sell-offs in equity markets. Commodity prices, the AUD also fell, although bond yields were higher. The Australian dollar has plunged below 60 US cents, reflecting the intensity of current global growth concerns.

Share Markets: Share market indices saw further large scale falls last night, although not as pronounced earlier in the week. The Dow moved 6.3% lower, and the S&P500 fell another 5.2%. Airline stocks were the hardest hit, as Washington proposed a rescue package of \$50 billion loans rather than grants as hoped.

Yesterday, the S&P/ASX200 dropped 6.4% to below 5000, and is down 30.6% from its peak on February 20.

Interest Rates: Government bond yields were volatile, but were higher, unusual for an extreme risk environment. The extensive amount of government spending to counteract the impact of the virus can help explain the move, but might also reflect some liquidity constraints given central banks have held a big chunk of the stock of bonds globally.

US 10-year yields have popped back up to 1.19%.

In Australia, 10-year bond yields have also lifted to above 1.0% at 1.21%. Recent behaviour of the bond market suggests that the RBA will have to provide some extraordinary action this afternoon for bond

yields and money market rates to move lower. Moreover, markets have fully priced in a 25 basis point rate cut, and an implied yield of just 9 basis points in futures markets suggest some other monetary easing policy, such as quantitative easing is also expected by markets.

Foreign Exchange: The US dollar index hit its highest in two years, reflecting the extreme risk averse environment. Conversely, euro and sterling were down sharply. The Australian dollar continued to plummet, and is down to 57.8 US cents. Further downside risk remains until containment measures start to work.

Commodities: US WTI oil prices hit their lowest in 18 years as demand weakens with travel completely curtailed. Moreover, Saudi Arabia has said that it will maintain oil supply at a record. Gold also joined in the sell-off- prices fell over 3%.

COVID-19: The number of cases globally has surpassed 200,000, according to Worldometer site. Bloomberg has also reported that the number of cases in Europe has surpassed China.

The UK is the latest to extend containment measures, shutting schools, but they will need to look after children of key workers.

The Australian Government unveiled new measures to slow the spread of the coronavirus. Indoor gatherings of more than 100 people have been restricted and there has been a no-international-travel order. Additionally, strict new rules for visiting aged care homes were introduced. The

measures could be in place for up to six months according to the Prime Minister, Scott Morrison.

Australia: The RBA is due to deliver a monetary policy announcement this afternoon at 2:30pm, followed by a speech by the RBA Governor at 4pm. Further policy support is all but certain. We anticipate a 25 basis point rate cut taking the cash rate to 0.25%, and for the RBA to announce bond purchases.

The Australian Bureau of Statistics (ABS) is now releasing preliminary statistics for some data releases to assist in better understanding the economic impact of the coronavirus outbreak.

It estimated that February retail spending increased 0.4%. This gain was the first in three months, after declines of 0.7% and 0.3%, in December and January, respectively. It confirms a weak underlying trend in retailing before the coronavirus crisis escalated.

A lift in supermarket sales suggests that household caution and stockpiling were beginning to take place in February. A further sign of the emerging caution was weakness in discretionary areas of spending, including clothing, footwear and personal accessory retailing. That said, these segments were already subdued over the past year due to low wages growth and high household debt. There was also weakness in other retailing including duty free stores and luxury goods retailing.

The big test will be in March when travel bans and social distancing has come into place. A drop in overall retailing is likely in March.

Separate data showed confirmed that the economy was running below trend early in Q1. The six month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, fell from -0.49% in January to -0.96% in February.

The index's growth rate has been running consistently below trend for 15 months

Europe: A board member of the European Central Bank (ECB) has said that the ECB was "ready to do everything in its mandate to counter market turmoil".

New Zealand: New Zealand's current account deficit narrowed to 3% of GDP in the December quarter, in line with expectations. An increase in goods exports – both in prices and volumes – supported the slight improvement. Like other small,

open economies, New Zealand is bracing for a significant impact to its current account in Q1 due to the coronavirus outbreak.

United States: A raft of housing data and industrial production data suggests that the economic activity was performing reasonably well over February, but this data preceded the recent escalation of the coronavirus and containment measures.

Today's key data and events:

NZ GDP Q4 exp 0.5% prev 0.7% (8:45am)

JN CPI Feb y/y exp 0.5% prev 0.7% (10:30am)

AU Labour Force Feb (11:30am)

-Employment exp 7k prev 13.5k

-Unemployment rate exp 5.3% prev 5.3%

-Participation rate exp 66.0% prev 66.1%

AU RBA Monetary Policy Announcement (2:30pm)

AU RBA Governor Lowe Speaks (4pm)

US Current Acc't Q4 exp -\$108.5b prev -\$124.1b (11:30pm)

US Phil. Fed PMI Mar exp 9.0 prev 36.7 (11:30pm)

US Initial Claims w/e Mar 14 exp 220k prev 211k (11:30pm)

US Leading Index Feb exp 0.1% prev 0.8% (1am)

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.

Janu Chan, Senior Economist

Ph: 02-8253-0898

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@bankofmelbourne.com.au

(02) 8254 1316

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