Morning report

Wednesday, 20 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,559.5	1.8%		**Last**		**Overnight Chg**		**Australia**		
US Dow Jones	24,206.9	-1.6%	10 yr bond	99.05		0.02		90 day BBSW	0.10	0.00
Japan Nikkei	20,433.5	1.5%	3 yr bond	99.74		0.00		2 year bond	0.27	0.01
China Shanghai	3,038.1	0.8%	3 mth bill rate	99.85		-0.01		3 year bond	0.26	0.01
German DAX	11,075.3	0.1%	SPI 200	5,491.0		-83		3 year swap	0.24	0.02
UK FTSE100	6,002.2	-0.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.98	0.07
Commodities (close & change)*			TWI	57.0	-	-	57.7	**United States**		
CRB Index	129.6	0.5	AUD/USD	0.6517	0.6585	0.6510	0.6537	3-month T Bill	0.11	0.00
Gold	1,745.1	12.5	AUD/JPY	69.93	70.96	69.88	70.40	2 year bond	0.17	-0.01
Copper	5,340.0	38.0	AUD/GBP	0.5342	0.5367	0.5330	0.5337	10 year bond	0.69	-0.04
Oil (WTI)	32.5	0.7	AUD/NZD	1.0795	1.0829	1.0741	1.0758	**Other (10 year yields)**		
Coal (thermal)	55.9	0.8	AUD/EUR	0.5970	0.6014	0.5962	0.5984	Germany	-0.46	0.00
Coal (coking)	115.0	0.0	AUD/CNH	4.6383	4.6809	4.6381	4.6536	Japan	0.01	0.01
Iron Ore	95.5	1.9	USD Index	99.6	99.7	99.2	99.6	UK	0.25	-0.01

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: Share markets fell for the first time in four sessions, US bond yields were lower and the US dollar gained ground against other major currencies. Against this backdrop, the AUD/USD exchange rate hit a 10-week high before retreating.

UK jobless claims showed the unemployment rate is set to spike and US housing starts fell to a 5-year low.

Share Markets: US share markets fell for the first time in four sessions. It followed reports that Moderna Inc.'s vaccine study, which was credited in part for Monday's rally, didn't produce enough critical data to assess its success. The Dow Jones fell 391 points (or -1.6%) and the S&P 500 index dropped 31 points (or -1.1%).

Interest Rates: US government bond yields fell across the yield curve with the 2-year yield down 1 basis point and the 10-year yield 4 basis points lower.

Australian 3-year government bond yields again nudged higher, from 0.26% to 0.27%, while the 10-year yield ranged between 0.95% and 0.98%.

Foreign Exchange: The US dollar index fell in New York trade against the G-10 currencies except the Japanese yen. The Australian dollar during overnight trade reached as high as 0.6585 against the US dollar, which is the highest since March 10. The AUD/USD pulled back to 0.6530. When assessing the price action or technical picture over the past month, the AUD/USD appears well supported above 0.6350-0.6400. We do not expect any pull backs in the near term to fall under this range, provided China does not significantly expand and deepen its tariffs and bans on Australia's exports to China.

Commodities: Most commodity prices lifted overnight, despite the falls in equity markets.

COVID-19: The number of new daily infections remains low in Australia. In the past 24 hours, there were 8 new infections in Australia, according to Worldometer data. The number of active cases in Australia also continues to fall, now standing at 569.

Australia: Over the two weeks ending May 2, payroll jobs declined by 0.2% and were down 7.3% from mid- March (week ending March 14. The rate of decline has slowed from late March to early April. While this data is not directly comparable to the key monthly labour force data, it is providing an early and tentative signal that the deterioration in labour market conditions might have slowed in early May.

Another encouraging sign for the labour market was a slight improvement in total wages paid. The wages index increased 1.4% for the two weeks ending May 2 and has increased for three consecutive weeks.

The Reserve Bank (RBA) published board minutes for its meeting earlier this month yesterday. At that meeting, the RBA left policy settings unchanged, including the cash rate of 0.25% and its target for the 3-year government bond yield at around 0.25%.

These minutes indicated that the RBA board considers the package of monetary policy measures implemented in mid March to be “working broadly as expected”. The minutes also confirmed the target of around 0.25% for the three-year government yield would be maintained until progress was made towards the Reserve Bank's goals of full employment and the inflation target. Further, it would be appropriate to remove the yield target before the cash rate itself was raised.

Low interest rates are here to stay for an extended time. We expect the 3-year government bond yield target to remain unchanged until 2022 and we do not expect the RBA to lift the cash rate before 2024.

Europe: The ZEW survey for Germany recorded another decline for the current conditions component, taking the index to -93.5 in May, from -91.5 in April. However, the expectations component surged from 28.2 in April to a five-year high of 51.0 in May. The eurozone area also recorded another decline in May for current conditions in the ZEW survey, but recorded an improvement in expectations to 46.0 in May (from 25.2 in April).

European Union (EU) officials, the European Central Bank’s President Lagarde and both French and German Finance Ministers lauded the prospect of an EU rescue fund (though unlikely before 2021). However, there are initial signs of problems as Austria, Netherlands and Denmark voiced concerns over proposals for EU grants and shared debt.

New Zealand: Producer prices (output measure) edged up just 0.1% in the March quarter, the softest increase in a year and reflects the decline in oil prices over March. Input prices fell over the same period, reflecting lower prices for sheep and beef farming amid dry conditions. With oil prices declining significantly over recent months, prices are likely to come under further downward pressure.

Reserve Bank of New Zealand (RBNZ) Deputy Governor Bascand repeated that the current level of the Official Cash Rate (OCR) level would persist into next March, though this would be reviewed in three months in case they might need to do more (on quantitative easing or early negative interest rate policy).

RBNZ Assistant Governor Hawkesby was also reported in financial media stating that policy was on hold with downside risks and maintained an openness towards negative interest rates.

Japan: Industrial production was unrevised at -3.7% in March, confirming a contraction in factory activity in the lead up to COVID-19 escalating around the world.

The Bank of Japan (BOJ) also announced it will be holding an unscheduled monetary policy meeting on Friday to discuss a possible new measure to provide funds to financial institutions ordered by BOJ Governor Kuroda in April.

United Kingdom: The jobs market showed some remarkable resilience in Q1 even as the lockdown began to take hold. But the timelier claimant count and vacancies data suggest a marked deterioration is coming. The headline aggregates in last night’s labour market release covered the three months to March, capturing only nine days of lockdown, which began on March 23. There was a 210,000 increase in the number of people employed and the unemployment rate rose fell 0.1 percentage points to 3.9% in the three months to March.

Despite the apparent strength of the Q1 reading, a massive deterioration is clearly coming next month. Claims surged by a whopping 856,500 in April, which is a record rise and eclipses the highest rise of 142,800 recorded during the global financial crisis. The claimant count rate rose form 3.5% in March to 5.8% in April.

United States: Federal Reserve Chair Powell and Treasury Secretary Mnuchin affirmed their current policy stances in appearances to the Senate Banking Committee.

Powell reiterated that the Fed is “committed to using…[the] full range of tools to support the economy in this challenging time even as we recognise that these actions are only a part of a broader public-sector response.” Powell also said the scale and speed of the downturn “are without modern precedent and are significantly worse than any recession since World War II.”

Meanwhile, Mnuchin said he plans to use all US$500 billion the Treasury was allocated to help the economy, and is willing to take on more risk to do so. Mnuchin said they are also “prepared to take losses in certain scenarios."

Housing starts in April slumped 30.2% to an annual rate of 891,000. It is the slowest pace of new home construction since February 2015. Housing permits fell by 20.8% in the same month. This data underlines fears that the US is headed for the deepest economic contraction in Q2 since the Great Depression.

Today's key data and events:

JN Machinery Orders Mar exp -6.7% prev 2.3% (9.50am)
AU WBC Leading Index Apr prev -0.8% (10.30am)
AU Skilled Vacancies Apr prev -5.3% (11am)
AU Preliminary Retail Sales Apr prev 8.5% (11.30am)
UK CPI Apr exp -0.1% prev 0.0% (6.30pm)
EZ Consumer Confidence May exp -23.7 prev -22.7 (12am)
US Federal Reserve's Bostic Speech (12am)
US Federal Reserve's Bullard Speech (2am)
US FOMC Minutes of Meeting Apr 29 (4am)

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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