Morning report

Monday, 23 March 2020

Equites (Close & % Change)			Sydney Futures Exchange (Close & Change)					Interest rates (Close & Change)		
S&P / ASX200	4816.6	0.7%		**Last**		**Overnight Chg**		**Australia**		
Dow Jones	19174.0	-4.5%	10 yr bond	98.95		0.28		10 year bond	1.10	0.00
Nikkei	16552.8	-1.0%	3 yr bond	99.71		0.00		3 year bond	0.30	0.00
Hang Seng	22805.1	5.0%	3 month bill	99.55		0.04		90 day BBSW	0.52	-0.13
Shanghai	2745.6	1.6%	SPI 200	4835		-54		**United States**		
DAX	8929.0	3.7%	FX Last 24 Hours	Open	High	Low	7:30 AM	10 year bond	0.94	-0.19
FTSE 100	5190.8	0.8%	TWI	49.9	-	-	52.4	2 year bond	0.37	-0.06
Commodities (Close & Change)			AUD/USD	0.5832	0.5986	0.5745	0.5791	3-month T Bill	0.04	-0.03
CRB Index	123.9	-3.8	AUD/JPY	64.43	65.54	63.90	64.42	**Other (10 year yields)**		
Gold	1497.6	27.8	AUD/GBP	0.5017	0.5082	0.4922	0.4947	Germany	-0.34	-0.17
Copper	4825.0	80.0	AUD/NZD	1.0141	1.0248	1.0100	1.0185	Japan	0.11	0.00
Oil (WTI)	19.5	-5.6	AUD/EUR	0.5440	0.5551	0.5378	0.5406	UK	0.56	-0.16

Data as at 7:20am. Change from previous trading day (excluding the SFE which is the change during the night session). Source: Bloomberg, Refinitiv.

Main Themes: More cities and countries around the world went into lockdown over the weekend. Market volatility continued on Friday. US stocks and oil prices fell. European equity bourses broadly rose.

Governments around the world unveiled further stimulus measures. The Australian stimulus package tally reached more than $189 billion over the weekend. Most initiatives are focussed on business liquidity and cash payments to welfare recipients.

Share Markets: US equities fell on Friday as more cities and states locked down. The S&P 500 ended down 4.3%, closing near its low after reversing early gains. The Dow Jones fell 4.6%.

The Euro Stoxx 50 closed 3.9% higher, but trended lower over the session after being up more than 6% at one point. Investors became more cautious as further details about the length of containment measures were unveiled.

Interest Rates: Government bond markets tightened around the world as central banks began aggressive easing policies and investors sought safe-havens. Many central banks have resumed, ramped up or begun quantitative easing for the first time over the last week.

The US 10-year treasury yield fell 19 basis points to 0.94% and the 2-year yield fell 6 basis points to 0.37%. Interest rate markets have been volatile with wide bid-ask spreads.

Australian yields have come under pressure across the curve since Thursday following the RBA's announcement of a broad stimulus programme. On Friday the 90 day bank-bill-swap rate fell 13 basis points to 0.52%. The 3-year bond yield, which the RBA is now targeting as part of its yield curve control operation, is at 0.30%. The RBA is targeting a 3-year yield of 0.25%.

Foreign Exchange: Upward pressure on the US dollar index eased on Friday as central banks pledged more US dollar liquidity. The index has been at record highs amid a surge in demand for the safest assets. The US dollar index gained 4.12% last week, closing at 102.817.

The Chinese yuan rebounded from five-month lows as People's Bank of China (PBoC) chose to keep its lending rate unchanged and painted a rosy picture of economic prospects following a slowdown in new coronavirus cases there.

The Australian dollar has been slightly stronger in recent days amid volatile trading. It's currently trading just below US$0.5800 this morning.

Commodities: Oil capped its biggest weekly decline in nearly 30 years on Friday. WTI crude oil futures prices fell 11% and are currently at US$19.5 per barrel. Concerns about a collapse in oil demand due to the coronavirus outbreak left prices 29% lower over the week. Demand concerns have outweighed the prospect of a rare act of cooperation between OPEC and Texas's energy regulator to support prices.

Gold prices ticked higher and are currently at US$1,497.6 per ounce. The price of gold had been falling for much of last week as investors sold assets across the board to cover losses in other markets.

COVID-19: There were 292,142 globally confirmed cases of the coronavirus infection on March 22, according to the World Health Organisation (WHO). Cases increased by 26,069 in one day while there were 1,600 additional reported deaths. More countries around the world are announcing harsher containment measures including lockdown. Approximately 1 in 5 Americans are facing quarantine measures today.

Australia: A surge in new coronavirus infections over the weekend prompted stricter containment measures while the Federal Government announced an enhanced stimulus package to deal with the economic impact.

On top of the $17.6 billion package announced on March 12, the Government announced on March 22 an additional $66 billion worth of measures to support the economy. The new package focusses on businesses and supporting those likely to feel the initial effects of the shock. Prime Minister Scott Morrison said that more stimulus is likely over the next 6 months.

Yesterday's stimulus measures include an expansion of the "Boosting cash flow for employers" initiative now of $100k (up from $25k previously) to eligible small and medium sized businesses and non-profits. The minimum payment is $20k. Additionally, eligible employers can apply for a wage subsidy for 9 months of an apprentice or trainee's wage.

To support liquidity, the "Coronavirus SME Guarantee Scheme" was launched. Under the scheme, the Government will guarantee 50% of loans made by eligible lenders. $20 billion has been earmarked, meaning that full take-up would result in $40 billion of additional liquidity for businesses requiring a top up to working capital.

Sunday's announcement comes on top of a $90 billion term-funding facility announced on Friday to lower lending costs for selected Authorised Deposit Taking Institutions (ADIs) and a $15 billion facility set up by the Australian Office of Financial Management (AOFM) to support liquidity for small ADIs and non-ADIs. In sum, $125 billion has been pledged to support credit flow to business in the past week at a time when the RBA has cut interest rates to a record low and begun Quantitative Easing (QE).

Supplementing the support for businesses, households on welfare will be paid a new "coronavirus supplement" of $550 per fortnight for the next 6 months. Eligible income-support recipients will also be entitled to an additional $750 one-off payment (on top of the payment announced on March 12).

Households who are able to prove "financial stress" due to the coronavirus outbreak will be allowed to access up to $10k of their superannuation.

For sole-traders and the self-employed who are able to prove financial hardship, the jobseeker payment (formerly Newstart) and the coronavirus supplement will be available.

The dramatic ramp up of the stimulus (including various State government stimulus packages), is a direct response to the anticipated harsher containment measures being implemented. Prime Minister Morrison ordered the shuttering of "principle places of social congregation" effective from today in an effort to slow the spread of the coronavirus infection. Clubs, pubs, nightclubs and places of worship are to be closed while restaurants and cafes will become takeaway only. Schools are to remain open at this stage. The Government said that these measures are expected to be in place for 6 months and will be reviewed monthly.

Yesterday we published a summary of the stimulus measures introduced by the Federal and State governments as well as the RBA as of 22 March. If you have not received a copy and would like one, please contact us.

China: The PBoC said China's economic growth is set to return quickly to potential. It left its key lending rates unchanged. Deputy Governor Chen Yulu told reporters that the central bank would keep the exchange rate around US$7 over the medium term.

Europe: European countries are bracing for a severe economic impact from the coronavirus spread. Italy's treasury is expecting a 3% decline in GDP in 2020, despite various stimulus packages unveiled throughout the region. Germany's latest spending package is expected to be 350 billion euro's worth, or about 10% of GDP.

New Zealand: This morning the Reserve Bank of New Zealand (RBNZ) announced that it will begin large-scale purchases of government bonds, with an aim of up to $30bn across a range of maturities over the next 12 months. The purchases amount to about half of the available universe of government bonds, however the RBNZ noted that government bond issuance has increased recently.

Credit card spending fell 0.6% in the month of February, leaving the annual rate at 2.5%.

United Kingdom: The Bank of England (BOE) has cancelled its bank stress testing amid the coronavirus and said it would be hard to implement new global capital rules. The BOE last week said that banks could release all of the capital they hold in a special “counter cyclical” buffer to support lending.

United States: Existing home sales surged to 5.77 million in February, a 13-year high. Lower borrowing costs contributed to the rise. Demand for new houses is expected to wane significantly in the following months.

Meanwhile, the Fed announced more emergency measures to stem liquidity shortages. In a coordinated move with various other central banks, it enhanced permanent US dollar swap lines and ramped up its purchases of mortgage backed securities.

Today’s key data and events:

AU RBA Kent Speaks (9:10am)

US Chicago Fed Activity Feb exp -0.29 prev -0.25 (11:30pm)

EZ Consumer Confidence Mar A exp -13.0 prev -6.6 (2am)

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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