

Friday, 24 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,094.5	0.3%	Last		Overnight Chg			Australia		
US Dow Jones	26,652.3	-1.3%	10 yr bond	99.13	0.00			90 day BBSW	0.10	0.00
Japan Nikkei	22,751.6	-0.6%	3 yr bond	99.70	0.01			2 year bond	0.26	-0.01
China Shanghai	3,485.2	-0.2%	3 mth bill rate	99.89	0.00			3 year bond	0.27	0.00
German DAX	13,103.4	0.0%	SPI 200	6,010.0	-52			3 year swap	0.21	0.00
UK FTSE100	6,211.4	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.86	-0.03
Commodities (close & change)*			TWI	61.8	-	-	61.9	United States		
CRB Index	142.9	-0.4	AUD/USD	0.7139	0.7162	0.7091	0.7096	3-month T Bill	0.10	-0.02
Gold	1,887.4	16.0	AUD/JPY	76.50	76.71	75.78	75.84	2 year bond	0.15	0.00
Copper	6,558.0	62.0	AUD/GBP	0.5607	0.5630	0.5567	0.5572	10 year bond	0.58	-0.02
Oil (WTI)	41.1	-0.8	AUD/NZD	1.0722	1.0728	1.0689	1.0697	Other (10 year yields)		
Coal (thermal)	53.5	0.0	AUD/EUR	0.6169	0.6179	0.6117	0.6120	Germany	-0.48	0.01
Coal (coking)	114.1	2.0	AUD/CNH	5.0081	5.0135	4.9728	4.9746	Japan	0.02	0.00
Iron Ore	108.3	0.9	USD Index	95.0	95.2	94.6	94.8	UK	0.12	0.00

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 7:30am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Investor fears that the US economic recovery is stalling were fanned overnight by the first rise in US initial jobless claims since March. US-China tensions also escalated overnight.

Share Markets: US share markets dropped from a four-month high after the number of Americans filing for unemployment rose unexpectedly, signalling the US economic recovery may have stalled. The S&P 500 index dropped 40 points (or -1.2%) and the Dow Jones fell 354 points (or -1.3%).

Yesterday, the ASX 200 index rose 19 points (or +0.2%), despite the Federal Treasury releasing forecasts that revealed a sharp deterioration in the budget deficit.

Interest Rates: Bond yields fell overnight, as worries about a stalling US economic recovery mounted. The US 10-year yield declined 2 basis points, although the 2-year yield finished unchanged.

Foreign Exchange: Earlier this week the Australian dollar finally broke out of the trading range it had been stuck in for much of a month. The AUD/USD rose to a 3-month high of 0.7182 on July 22, but this appreciation has since stalled. The AUD/USD came under further selling pressure overnight and traded in a range of 0.7091-0.7162.

Commodities: Oil prices fell overnight, but other commodity prices were generally firmer.

COVID-19: Victoria added 403 new infections in the

last 24 hours and NSW saw an increase of 19 infections. Rising infections in both States pose a threat to the fragile, nascent economic recovery underway nationally.

Australia: The Federal Government has announced an underlying cash deficit of \$85.8 billion (4.3% of GDP) for 2019-20. The fiscal deficit is expected to rise to \$184.5 billion in 2020-21 (9.7% of GDP). The 2020-21 deficit will be the largest on record, with records starting in 1970.

At the time of the December 2019 Mid-Year Economic and Fiscal Outlook, the government was forecasting a \$5 billion surplus for 2019-20 and a \$6.1bn surplus for 2020-21. The deterioration has been sharp and fast.

Net debt is expected to increase to \$488 billion (24.6% of GDP) at June 2020, then to \$677.1 billion (35.7% of GDP) as at 30 June 2021. That is up from \$373.6 billion (19.2% of GDP) at June 2019.

The extensive policy measures to support the economy through the impact of COVID-19 have accounted for the bulk of the sharp deterioration in the deficit. The government has reported \$172 billion worth of spending over the two years in response to the pandemic.

The sharp decline in economic activity and loss of employment also results in less tax revenue and greater spending on for welfare recipients.

A more detailed update on forecasts and projections over the next four years will be available in the 2020-21 Budget, which will be delivered on 6 October 2020 (postponed from 12 May 2020).

While the size of the deficit and the net debt position are at levels which have not been seen before in recent history, the focus should be on providing support to the economy while it remains fragile. As the Reserve Bank Governor pointed out earlier this week, it would be a mistake to withdraw stimulus too early.

The quarterly business survey published by NAB revealed a deterioration in business confidence from -12 in the March quarter to -15 in the June quarter.

United States: US Treasury secretary Steven Mnuchin said Republicans would consider extending some emergency jobless benefits as data for the number of Americans filing for initial unemployment benefits showed the labour market's recovery may be stalling.

New jobless claims rose to 1.42 million last week, compared with 1.31 million in the previous week, following COVID-19 outbreaks in parts of the US south and west. Economists had forecast that claims would match the previous week's unrevised figure of 1.30 million. It was the first time since March that weekly applications for benefits have risen. The pace of first-time claims had gradually eased in each of the preceding 15 weeks since hitting a high of 6.87 million in March. Weekly claims remain elevated, having hit a peak of 669,000 during the 2008-09 financial crisis.

The Conference Board's leading economic index increased in June, but the pace of improvement has slowed. The index rose 2.0% in June following a revised 3.2% in May and a 6.3% drop in April.

Manufacturing activity increased in July to +3, according to the Federal Reserve Bank of Kansas City's latest survey of plant managers in the seven states surveyed. Volume of new orders rose to +9 from +7 last month and the number of employees' index rose to +3 from -6.

In terms of US-China tensions, the US Justice Department said four individuals had been charged with visa fraud related to their status as members of Chinese military forces. The department also said the FBI had recently conducted additional interviews of visa holders in more than 25 US cities suspected of having undeclared affiliations with the Chinese military.

Further, the US Secretary of State, Mike Pompeo,

labelled China's leaders tyrants bent on global hegemony. In Washington's latest salvo against Beijing, Pompeo called Xi Jinping a "true believer in a bankrupt totalitarian ideology" and urged the Chinese people to work with the US, saying the Communist Party fears their "honest opinion more than any foreign foe."

Today's key data and events:

NZ Trade Jun exp \$450mn prev \$1254mn (8.45am)
 UK GfK Consumer Conf. Jul exp -24 prev -27 (9.01am)
 AU Preliminary Merchandise Trade Jun prev (11:30am)
 EZ Markit Services PMI Jul (6.00pm)
 UK Retail Sales Jun exp 8.3% prev 12.0% (4.00pm)
 UK Markit Mfg PMI Jul exp 52.0 prev 50.1 (6.30pm)
 UK Markit Services PMI Jul exp 51.7 prev 47.7 (6.30pm)
 US Markit Mfg PMI Jul exp 52.0 prev 49.8 (11.45pm)
 US Markit Services PMI Jul exp 51.0 prev 47.9 (11.45pm)
 US New Home Sales Jun exp 3.6% prev 16.6% (12.00am)

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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