

Wednesday, 24 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,954.4	0.2%	Last		Overnight Chg			Australia		
US Dow Jones	26,156.1	0.5%	10 yr bond	99.08	0.00			90 day BBSW	0.11	0.00
Japan Nikkei	22,549.1	0.5%	3 yr bond	99.71	-0.01			2 year bond	0.26	0.00
China Shanghai	3,113.7	0.2%	3 mth bill rate	99.86	0.00			3 year bond	0.26	0.01
German DAX	12,523.8	2.1%	SPI 200	5,934.0	9			3 year swap	0.24	0.01
UK FTSE100	6,320.1	1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.90	0.04
Commodities (close & change)*			TWI	60.0	-	-	60.2	United States		
CRB Index	138.6	-0.5	AUD/USD	0.6911	0.6975	0.6858	0.6928	3-month T Bill	0.13	-0.02
Gold	1,768.4	14.0	AUD/JPY	73.89	74.42	73.21	73.78	2 year bond	0.19	-0.01
Copper	5,869.5	30.3	AUD/GBP	0.5542	0.5581	0.5515	0.5537	10 year bond	0.71	0.00
Oil (WTI)	40.0	-0.7	AUD/NZD	1.0662	1.0695	1.0653	1.0673	Other (10 year yields)		
Coal (thermal)	52.9	-0.5	AUD/EUR	0.6136	0.6156	0.6104	0.6127	Germany	-0.41	0.03
Coal (coking)	118.0	2.0	AUD/CNH	4.8777	4.9183	4.8593	4.8921	Japan	0.01	0.00
Iron Ore	99.4	0.2	USD Index	97.0	97.2	96.4	96.7	UK	0.21	0.02

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: A sense of cautious optimism pervaded markets overnight. Sentiment was boosted by the prospect of further fiscal stimulus in the US, a pick-up in Eurozone business confidence and a calming of US-China trade tensions.

Share Markets: Global equity markets mostly rose overnight. In the US, the S&P 500 closed 0.4% higher while the Dow Jones increased 0.5%. Gains were pared towards the end of trade after data showed COVID-19 cases rising in some US states. It served as a reminder to investors that a surge in COVID-19 infections has the potential to re-assert itself as a major drag on economic growth.

The NASDAQ hit a fresh all-time high overnight and closed 0.7% higher. Tech shares have been viewed as relatively less impacted by the COVID-19 pandemic.

In Australia, the ASX 200 closed marginally higher by 0.2% yesterday. Shares plummeted after news outlets quoted White House trade adviser Peter Navarro as saying that the US-China trade deal was "over". Navarro subsequently issued a statement that his comments were taken out of context and that the deal was still on. The initial comments saw the ASX 200 lose 1.6% of its value before regaining most of the losses.

Interest Rates: The US yield curve steepened

overnight. The 10-year treasury yield finished the session unchanged at 0.71% after reaching a high of 0.73% intra-session. The 2-year yield edged lower by 1 basis point to 0.19%.

Yields on Australian bond yields rose yesterday. The 10-year rose 4 basis points to 0.90% while the 3-year bond yield was 1 basis point higher at 0.26%. The Reserve Bank (RBA) target for the 3-year bond yield is "around" 0.25%.

Foreign Exchange: The US dollar continued to weaken overnight, as riskier currencies gained favour. The US dollar index fell from 97.0 yesterday to 96.7 this morning.

The Australian dollar rose to a high of 0.6975 overnight before retreating slightly this morning to 0.6928.

Commodities: Gold prices rose by US\$14.0 per ounce to US\$1,758.4, their highest since 2012. Prices of the previous metal have performed strongly over recent weeks amid heightened uncertainty.

WTI oil futures fell by US\$0.7 to US\$40.0 per barrel after data from the American Petroleum Institute showed US crude inventories rose by 1.75 million barrels last week.

COVID-19: Global cases rose by 150,000 to 9.1 million yesterday, according to data compiled by

Bloomberg. It includes an increase of 32,000 in the US, where cases rose 1.4%. Officials reported that California recorded its record for new cases for the fourth consecutive day.

Cases rose by 18 in Australia yesterday, or 0.2%, according to Bloomberg data. Concerns remain over outbreaks in Victoria.

Australia: Preliminary merchandise trade data showed exports fell 4.3% while imports dropped 9.1% in May. The weakness in both exports and imports is consistent with the drop in global and domestic demand. The decline in exports was driven by declines in non-monetary gold, coal and gas, while exports of iron ore remained strong. Weakness in imports reflected significant declines in imports of road vehicles and petroleum, as oil prices fell. This preliminary data does not include service exports and imports which have shown even greater weakness with the impact of COVID-19 restrictions.

The CBA PMI for services jumped 26.3 points to 53.2 in June. Meanwhile, the PMI for manufacturing approached the critical level of 50.0 denoting expansion, rising 5.8 points to 49.8 in June.

Ratings agency Moody's also affirmed Australia's sovereign credit rating status at AAA stable.

Japan: The Jibun manufacturing PMI declined further in June to 37.8, down from 38.4 in May. It was the fifth consecutive month of decline, and indicates an ongoing deterioration in industrial activity. At the same time, services activity rebounded, lifting from 26.5 in May to 42.3 in June, as the government lifted a nationwide state of emergency. Both indices are holding below 50, signalling contraction and signal that the recession in Japan has further to run.

New Zealand: The Westpac - McDermott Miller employment confidence index fell to 87.3 in June, down almost 13 points compared to March. It was the lowest reading since the survey began in 2004, reflecting the impact of COVID-19 on the labour market.

Europe: Business activity improved in June, as lockdown measures were gradually eased across the region. The flash reading of the Markit manufacturing PMI rose by more than expected to 46.9 in June from 39.4 in May. There was more substantial pick up in services, which surged from 30.5 in May to 47.3 in June. Both indicators remain below the 50-natural level, signalling that both sectors remain in contraction.

United Kingdom: The Markit PMIs for

manufacturing and services both rose in June by more than expected. The manufacturing PMI rose to 50.1 from 40.7 in May while the services PMI rose to 47.0 from 29.0 previously.

United States: Attention in the US shifted towards the potential for extra stimulus. Treasury secretary Steve Mnuchin said that the administration was discussing another stimulus package with lawmakers that could be legislated as soon as July. A spokesman for the administration said that discussions have included the potential for cash payouts and tax cuts. Officials at various levels, including US President Donald Trump himself, said that the US-China trade deal was still on following earlier media reports that the deal had been cancelled.

Meanwhile, economic data showed activity is continuing to rebound. The flash Markit PMI for June rose to 49.6 (39.8 previously) for manufacturing and to 46.7 (37.5 previously) for services. Both readings were in line with expectations. A separate report from the Richmond Fed showed its manufacturing index rising to 0 in June from -27 in May.

New home sales rose 16.6% over the month in May to 676k. The increase was ahead of expectations, but the percentage increase was exacerbated by a significant downward revision to April's number, which was revised to a 5.2% decline from a 0.6% rise previously reported.

Today's key data and events:

AU Skilled Vacancies May prev -16.4% (11am)

NZ RBNZ OCR Decision exp 0.25% prev 0.25% (12.00pm)

CH Current Account Q1 final prev US\$-29.7bn (~)

EZ Ger. IFO Bus Climate Jun exp 85.0 prev 79.5 (6pm)

US FHFA House Prices exp 0.3% prev 0.1% Apr (11.00pm)

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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