

Wednesday, 25 March 2020

| Equities (close & % change)             |         |       | Sydney Futures Exchange (close & change) |  |             |                      |        | Interest rates (close & change) |                               |             |
|-----------------------------------------|---------|-------|------------------------------------------|--|-------------|----------------------|--------|---------------------------------|-------------------------------|-------------|
| S&P/ASX 200                             | 4735.7  | 4.2%  |                                          |  | <b>Last</b> | <b>Overnight Chg</b> |        | <b>Australia</b>                |                               |             |
| US Dow Jones                            | 20704.9 | 11.4% | 10 year bond                             |  | 99.05       | -0.07                |        | 10 year bond                    | 0.90                          | -0.02       |
| Japan Nikkei                            | 18092.4 | 7.1%  | 3 year bond                              |  | 99.69       | -0.02                |        | 3 year bond                     | 0.28                          | -0.01       |
| China Shanghai                          | 2853.0  | 2.3%  | 3 month bill rate                        |  | 99.55       | -0.01                |        | 3 year swap                     | 0.47                          | -0.02       |
| German DAX                              | 9700.6  | 11.0% | SPI 200                                  |  | 4992        | 278                  |        | 2 year bond                     | 0.29                          | 0.00        |
| UK FTSE100                              | 5446.0  | 9.1%  | FX Last 24 hrs                           |  | Open        | High                 | Low    | Current                         | 90 day BBSW                   | 0.47 0.00   |
| <b>Commodities (close &amp; change)</b> |         |       | TWI                                      |  | 51.8        | -                    | -      | 53.0                            | <b>United States</b>          |             |
| CRB Index                               | 128.2   | 3.4   | AUD/USD                                  |  | 0.5827      | 0.5975               | 0.5803 | 0.5950                          | 10 year bond                  | 0.84 0.05   |
| Gold                                    | 1632.3  | -6.0  | AUD/JPY                                  |  | 64.78       | 66.34                | 64.52  | 66.19                           | 2 year bond                   | 0.37 0.06   |
| Copper                                  | 4808.5  | 186.8 | AUD/GBP                                  |  | 0.5045      | 0.5123               | 0.5006 | 0.5054                          | 3-month T bill                | -0.04 -0.02 |
| Oil (WTI)                               | -12.0   | -0.3  | AUD/NZD                                  |  | 1.0180      | 1.0270               | 1.0185 | 1.0210                          | <b>Other (10 year yields)</b> |             |
| Coal (thermal)                          | 66.5    | 0.5   | AUD/EUR                                  |  | 0.5431      | 0.5527               | 0.5409 | 0.5511                          | Germany                       | -0.32 0.05  |
| Coal (coking)                           | 160.4   | 0.8   | AUD/CNH                                  |  | 0.4222      | 4.2348               | 4.1322 | 4.1525                          | Japan                         | 0.04 -0.03  |
| Iron Ore                                | 85.9    | -3.2  | USD index                                |  | 102.49      | 102.5                | 101.1  | 102.487                         | UK                            | 0.48 0.05   |

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE which is the change during the night session). Gold, copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg.

**Main Themes:** The mood in financial markets improved amid expectations that US politicians would agree on a massive spending bill to help the US economy through the COVID-19 crisis.

Indeed, reflecting the improved risk appetites, the US Dow Jones share market index posted its best daily gain since 1933 and the USD index ended its 10-day rally.

**Share Markets:** US share markets rallied hard as US Congress appeared poised to pass a stalled stimulus bill. The S&P 500 rebounded from its lowest level since 2016, notching a third straight increase and the biggest daily gain since October 2008. The S&P 500 gained 210 points or 9.4%. The Dow Jones index rose by 2,113 points or 11.5% to clock its biggest daily percentage advance since 1933.

The surges followed similar moves in Europe, where equities rose the most since November of 2008. The Euro Stoxx 50 index rose 230 points or 9.3%.

Yesterday, the ASX200 gained 190 points or 4.2%, but is down 51.2% from the peak recorded on February 20.

**Interest Rates:** Interest-rate markets are not showing the volatility associated with near dysfunction that was evident last week. US 2-year treasury yields rose from an overnight low of 0.29% to an overnight high of 0.41%, before closing 6 basis

points higher to 0.37%. At the close, the US 10-year yield finished up 5 basis points at 0.84%.

Demand for US dollar short-term funding remained high; the spread between the 3-month Libor and the 3-month overnight-indexed swap (OIS) stands at 112 basis points, which is near the highest since 2008 (and compares to 12 basis points in February).

The Reserve Bank purchased more bonds (~\$4 billion) yesterday as part of its quantitative easing program to target the Australian 3-year bond yield at around 0.25%. Liquidity is clearly returning to 3-year and 10-year government bonds. The Australian 3-year government bond yield was quite stable, ranging between 0.30% and 0.32%, near the Reserve Bank's target of around 0.25%. The Australian 10-year yield rose from 0.87% to 0.98%.

**Foreign Exchange:** Traders around the world dumped the USD in favour of other currencies, as the appetite improved for risk. The USD index declined 0.6%, ended its 10-day rally that took the USD index to its strongest level on record after the US Federal Reserve announced unprecedented stimulus on March 15. The USD index earlier fell as much as 1.5%, the most since 2016 on a closing basis.

In other major currencies, EUR/USD rose from 1.0780 to 1.0888 before retracing. USD/JPY rose

from 110.20 to a one-month high of 111.63.

The AUD/USD over the past 24 hours appears to be consolidating in a range of 0.5870-0.5975. AUD/USD convincingly rebounded off major support near 0.5500 on March 19.

**Commodities:** Brent crude oil is up 0.7% to US\$27.23 a barrel; copper is up 4.1%; iron ore is up 5.3% at US\$84.20; and gold is up 4.6%.

**COVID-19:** The number of confirmed infections in Australia now stands at 2,144 with 8 deaths, according to Worldometer data.

The Federal government stepped up social distancing restrictions last night. From midnight tonight, all libraries, museums, galleries, beauty salons, tattoo parlours, shopping centre food courts, auctions, open houses, amusement parks, indoor and outdoor play centres, swimming pools and indoor exercise activities will be shut down. Weddings will be restricted to 5 people, including the couple. Funerals will be restricted to 10 mourners. Hairdressers and barbers remain open for appointments of less than 30 minutes; outdoor personal training and bootcamps can continue for groups of less than 10.

University experts in Australia (from the Group of Eight universities) warn of 50,000 cases by Easter and back stricter social distancing measures.

Globally, the number of confirmed cases is at 416,066 with China at 81,171, Italy at 69,176 and the US at 52,400.

There are early indications that the number of new daily infections is easing in Italy, although they remain very high.

The Chinese government announced yesterday travel restrictions would be lifted in the Hubei province, except in the city of Wuhan. The change will allow people to travel to other places within and outside of Hubei. The move comes as China claims to have largely brought their outbreak under control.

**Australia:** The Roy Morgan weekly consumer confidence index fell by 27.8% last week to 72.2, which brings the headline index to just above the record low recorded in 1990. It is the biggest fall in the index since 2008 when the series moved to a weekly frequency.

The severe fall in consumer confidence reflects the heightened levels of uncertainty in the economy due to the impact of COVID-19 in the community. Spending outside of essential goods and services has already taken a hard hit in recent weeks. We

can expect spending to continue to contract, as social distancing ramps up and society locks down.

The services purchasing managers index (PMI) plunged sharply in the preliminary estimate for March, declining to 39.8 from 49.0 in February. It was the lowest level since the series began in 2014. The decline highlights the significant downturn in activity in the services sector. Meanwhile, the manufacturing PMI edged down only marginally, from 50.2 in February to 50.1 in March. However, services make up a larger component of the Australian economy.

The QLD State government unveiled a \$4 billion stimulus package yesterday. Two months' worth of payroll tax will be immediately refunded and the next three months' worth of payroll tax will be waived. A plan earlier in the month to defer payroll tax for six months will still go ahead, but instead take effect from July to December 2020.

**Europe:** The PMIs fell sharply, especially for services, reflecting the impact of COVID-19 on the economy. The services PMI fell 24.2 points to 28.4 in March. The manufacturing PMI fell 4.4 points to 44.8 and the composite PMI sunk 20.2 points to 31.4 in March.

**Japan:** Economic activity weakened further in Japan over March from already low levels. In particular, the services index plunged from 46.8 in February to 32.7 in March. The sharp downturn in services is a trend being experienced worldwide, reflecting the impact of shutdowns to stem the spread of COVID-19.

The Japanese government announced that its government institutions pension fund (GIPF) would increase from 15% to 25% its allocation into foreign bond investments. The Bank of Japan also announced added repo operations with longer maturities.

**United Kingdom:** The Bank of England announced and implemented increased repo operations to enhance liquidity in UK's money markets, also noting the strains in global markets.

**United States:** US President Trump has suggested that he is considering pulling back on shutdown measures after a 15-day shutdown ends next week, despite still escalating cases of COVID-19.

US lawmakers are negotiating the final points in a \$2 trillion stimulus bill to help the economy through the pandemic. House Speaker Nancy Pelosi said she was hopeful a deal could be reached soon.

In terms of data published overnight, the PMIs in

March fell sharply, reflecting the impact of COVID-19 in the US economy. The services PMI plunged 10.3 points to 39.1 in March. The manufacturing PMI fell 1.5 points and the composite PMI fell 9.1 points to 40.5.

The Richmond Federal Reserve survey for March surprised with a 4-point gain in its core index to +2. However, the survey reported deteriorating prospects, falling orders and employment.

New home sales fell 4.4% in February, after a 10.5% gain in January. Further declines are expected due to the COVID-19 pandemic.

**Today's key data and events:**

NZ Trade Feb exp \$525mn prev -\$340mn (8.45am)

EZ IFO Business Climate Survey Mar prev 87.7 (8.00pm)

UK CPI Feb exp 0.3% prev -0.3% (8.30pm)

US Dur. Goods Orders Feb exp -1.0% prev -0.2% (11.30pm)

US FHFA House Prices Jan exp 0.4% prev 0.6% (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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