Morning report

Bank of Melbourne

Friday, 26 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,817.7	-2.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	25,745.6	1.2%	10 yr bond	99.10		0.00		90 day BBSW	0.10	0.00
Japan Nikkei	22,259.8	-1.2%	3 yr bond	99.72		0.00		2 year bond	0.25	0.00
China Shanghai	3,123.1	0.3%	3 mth bill rate	99.85		-0.01		3 year bond	0.26	-0.01
German DAX	12,177.9	0.7%	SPI 200	5,835.0		70		3 year swap	0.24	0.00
UK FTSE100	6,147.1	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.88	-0.04
Commodities (close & change)*			TWI	60.5	-	-	60.0	**United States**		
CRB Index	135.4	0.1	AUD/USD	0.6870	0.6962	0.6863	0.6887	3-month T Bill	0.14	0.00
Gold	1,763.8	2.6	AUD/JPY	73.54	74.17	73.31	73.84	2 year bond	0.19	0.00
Copper	5,861.0	-36.0	AUD/GBP	0.5530	0.5554	0.5516	0.5542	10 year bond	0.69	0.01
Oil (WTI)	39.0	1.0	AUD/NZD	1.0716	1.0756	1.0671	1.0712	**Other (10 year yields)**		
Coal (thermal)	52.1	-0.5	AUD/EUR	0.6105	0.6148	0.6092	0.6140	Germany	-0.47	-0.03
Coal (coking)	119.1	1.0	AUD/CNH	4.8649	4.9091	4.8555	4.8779	Japan	0.02	0.00
Iron Ore	101.2	-0.3	USD Index	97.2	97.2	96.6	97.4	UK	0.15	-0.04

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: Economic data was mixed overnight and virus concerns continued. US stocks meandered in directionless trading until the last hour of trade, when they finished strongly.

Share Markets: US stocks finished the session higher after rallying at the close. Trading volumes were light and the markets lacked direction until financial shares sparked a rally after regulators announced a weakening of the Volcker Rule. The Dow Jones closed 1.2% higher while the S&P 500 rose 1.1%.

The ASX 200 fell 2.5% yesterday, its worst performing day in more than two weeks. Futures are pointing to a stronger open this morning following the strong lead from the US.

Interest Rates: Yields were stuck in a narrow range overnight. The US 10-year treasury yield edged up by 1 basis point to 0.69% while the 2-year yield finished unchanged at 0.19%.

Yesterday, the Australian 10-year government bond yield shed 8 basis points to 0.88%. The 3-year yield fell 1 basis point to 0.26% while the 90-day bank bill swap rate remained at 0.10%, where it has been for several weeks.

Foreign Exchange: The US dollar rose slightly, trading in a range around a gentle uptrend throughout the session. The US dollar index is currently 97.4 this morning compared with 97.2 yesterday.

The Australian dollar also registered a mild increase. Trading in the AUD was range bound, with a relatively strong finish leaving it slightly higher at US$0.6887 this morning.

Commodities: Oil recovered some of the previous session's fall. WTI futures prices rose US$1.0 per barrel to US$39.0. Energy analytics firm Vortexa said that there are more than 200 million barrels of oil in floating storage, most of it in Asia. Investors generally view oil stored in ships as a sign of a supply glut.

Copper prices fell to US$5,861.0 per ounce amid mixed signals over supply. Unions in a large mine in Chile have called for a two-week shutdown after the second death of a worker while in Peru (the industry's second biggest producer), output is nearing full capacity again.

COVID-19: Victoria recorded 33 new infections yesterday, which is its biggest single day spike since April 7. The Victorian government is undertaking a testing blitz of 100,000 people across Melbourne suburb hotspots to try to contain the virus's spread.

Meanwhile, infections rates reached records in the US states of Texas, Florida, Arizona and California. Texas has been forced to halt some reopening measures and take steps to free up hospital capacity. The spike in infections is causing uncertainty about the likelihood of a second wave of infections and what that means for the re-opening of the US economy.

Australia: Qantas expects international flight numbers to be less than half of what they were all the way out to 2022. The CEO said he does not expect international flights to resume in any real size until July next year. But is planning to be back to 40% of its pre-crisis domestic flying during July this year. Qantas also announced a loss of at least 6,000 jobs. In addition, 15,000 employees will remain stood down from their roles until the airline has work for them again.

Job vacancies collapsed 43.2% in the three months to May, after a decline of 0.1% in the three months to April. This quarterly decline was the largest in job vacancies over the 40 years of the survey, and well above the previous largest drop of 27% during the 1990s recession.

The Australian Bureau of Statistics (ABS) released the fifth edition of its survey measuring the impact of COVID-19 on businesses in Australia. The survey was conducted from 10 to 17 June, covering 2,000 businesses of which 72% responded.

The key findings include 66% of businesses reported a decline in revenues compared with a year ago. In contrast, 8% said their revenues had increased. These results suggest businesses continue to face challenging conditions, despite some reopening of the economy around the time of the survey.

Of the businesses reporting lower revenue, 14% reported a huge drop of more than 75%, 17% reported a large fall of 50-75%, 37% a decline between 25-50% and 26% saw a fall of up to 25%.

A more severe impact on revenues has been experienced by larger firms (those employing more than 200 staff).

By industry, businesses in education & training were the most likely to report a reduction in revenue (87%) and mining firms were the least likely (31%). The hospitality industry had the highest share of businesses reporting a revenue hit of over 50%.

Other responses also suggested businesses are in a deteriorated operating position due to COVID-19. Only 36% of business said that their current cash on hand could sustain operations for more than 6 months in the current environment.

One of the more worrying aspects of this survey was that 8% of businesses said their operations could not be supported by current available cash on hand for more than a month and another 21% of businesses said operations could only be supported by cash on hand for 1-3 months. The JobKeeper scheme is due to end on 27 September, around the same time as some other stimulus measures. These results highlight that the end of the September quarter is shaping up to be a financial hurdle (and possibly a cliff) for some businesses.

New Zealand: The annual trade deficit was the smallest in almost 6 years in May at $1.3 billion. The trade gap narrowing by $1.1 billion compared to April's annual numbers with exports up 1.3% and imports down 5.4% over the twelve months.

United States: Economic data painted a mixed picture. Weekly initial jobless claims rose by 1.48 million, which was more than consensus was expecting and only slightly lower than the 1.54 million new claims in the previous week. Continuing claims slowed to 19.52 million. Initial claims have remained stubbornly high in recent weeks, suggesting a slower than anticipated recovery is in store for the US labour market.

Separate data showed durable goods orders rebounding by 15.8% in May following a fall of 18.1% in April. The Kansas City Fed manufacturing index for June rose to 1 from -19 in May, suggesting a further recovery in the industrial sector. Wholesale inventories fell 1.2% in May while retail inventories fell by 6.1%.

The third print of GDP for Q1 was broadly unchanged. GDP fell by an annualised 5.0% in Q1 (unchanged from the previous estimate) while personal consumption expenditure was revised up slightly to 1.7% from 1.6% previously.

Under new changes to the Volcker Rule, Wall Street banks will be able to boost investments in venture capital funds. The requirement that lenders hold margin when trading derivatives with their affiliates was also relaxed, potentially freeing up tens of billions of dollars.

Today’s key data and events:

NZ Consumer Confidenc Jun prev 97.3 (8am)

US Personal Income May exp -6.0% prev 10.5% (10:30pm)

US Personal Spending May exp 9.0% prev -13.6% (10:30pm)

US UoM Cons. Sentiment Jun F exp 79.0 prev 78.9 (12am)

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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