

Thursday, 26 March 2020

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |                      |        |         | Interest rates (close & change) |       |       |
|--|----------|-------|--|---------|----------------------|--------|---------|---------------------------------|-------|-------|
| S&P/ASX 200                              | 4,998.1  | 5.5%  | <b>Last</b>                              |         | <b>Overnight Chg</b> |        |         | <b>Australia</b>                |       |       |
| Dow Jones                                | 21,200.6 | 2.4%  | 10 yr bond                               | 99.06   | 0.03                 |        |         | 10 year bond                    | 0.98  | 0.08  |
| Nikkei                                   | 19,546.6 | 8.0%  | 3 yr bond                                | 99.69   | 0.00                 |        |         | 3 year bond                     | 0.29  | 0.00  |
| Shanghai                                 | 2,915.0  | 2.2%  | 3 mth bill rate                          | 99.56   | -0.01                |        |         | 3 year swap                     | 0.46  | -0.01 |
| DAX                                      | 9,874.3  | 1.8%  | SPI 200                                  | 5,149.0 | 104                  |        |         | 2 year bond                     | 0.27  | 0.00  |
| FTSE100                                  | 5,688.2  | 4.4%  | FX Last 24 hrs                           | Open    | High                 | Low    | Current | 90 day BBSW                     | 0.46  | -0.01 |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 53.0    | -                    | -      | 53.7    | <b>United States</b>            |       |       |
| CRB Index                                | 129.6    | 1.4   | AUD/USD                                  | 0.5950  | 0.6074               | 0.5931 | 0.5959  | 10 year bond                    | 0.86  | 0.01  |
| Gold                                     | 1,610.6  | -17.8 | AUD/JPY                                  | 66.19   | 67.71                | 65.93  | 66.28   | 2 year bond                     | 0.34  | -0.04 |
| Copper                                   | 4,808.5  | 186.8 | AUD/GBP                                  | 0.5054  | 0.5116               | 0.5001 | 0.5002  | 3-month T Bill                  | -0.07 | -0.06 |
| Oil (WTI)                                | 24.3     | 0.3   | AUD/NZD                                  | 1.0210  | 1.0305               | 1.0193 | 1.0199  | <b>Other (10 year yields)</b>   |       |       |
| Coal (thermal)                           | 66.4     | -0.1  | AUD/EUR                                  | 0.5511  | 0.5606               | 0.5469 | 0.5473  | Germany                         | -0.26 | 0.06  |
| Coal (coking)                            | 160.1    | -0.3  | AUD/CNH                                  | 4.1525  | 4.3223               | 4.2064 | 4.2467  | Japan                           | 0.05  | 0.01  |
| Iron Ore                                 | 87.9     | 2.0   | USD index                                | 102.48  | 101.92               | 100.85 | 100.89  | UK                              | 0.45  | -0.03 |

Data as at 7:30am 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:** Market sentiment remained buoyed overnight as the prospect of a US\$2 trillion stimulus package solidified and EU authorities made more progress on their own fiscal support measures. US and European equity bourses rose for consecutive sessions for the first time since the World Health Organisation (WHO) declared the coronavirus outbreak a pandemic.

**Share Markets:** Agreement between Republican and Democrat negotiators on a US\$2 trillion package supported US equity markets, which have been battered over the course of recent weeks. The Dow Jones closed up 2.4%, leaving its cumulative 2-day increase the highest since 2008. The S&P 500 gained 1.2%. The US stimulus deal buoyed most equity markets around the world. China's CSI 300 rose 2.7% while the Euro Stoxx 50 rose 3.1%.

European shares were also supported by the relaxation of German fiscal rules, allowing it to provide more stimulus by borrowing more than previously.

Market sentiment was dented towards the end of the session after Apple flagged that its latest iPhone could be delayed. US indices pared some gains but large jumps in airline and other transport stocks offset the decline.

Yesterday, the ASX200 gained 262 points or 5.5%,

backing up from a 4.2% gain the day before. Futures are pointing to another positive open this morning. Despite the consecutive gains, it is down 30.2% from the peak on February 20.

**Interest Rates:** Confirmation of a mammoth US fiscal support package soothed investor nerves. The effect was most notable in higher-grade European sovereign debt, which saw yields increase. Short-term US treasury yields turned negative for the first time since 2015. Both the 1 & 3 month treasury bill yields fell into the negative territory overnight. The 3-month yield fell 6 basis points to -0.07%. The curve steepened, with US 10-year bond yields up 1 basis point to 0.86% and the 2-year yield down 5 basis points to 0.34%.

Australia's yield curve also steepened yesterday. The 10-year bond yield jumped 8 basis points to 0.98%

**Foreign Exchange:** Higher-risk currencies were in favour overnight as market sentiment improved. The US dollar index is down 1.41 points to 100.89.

The Australian dollar is slightly stronger at US\$0.5950, but bounced as high as US\$0.6740 following news of US stimulus before falling back.

**Commodities:** WTI crude oil prices rose by US\$0.3 per barrel to US\$24.3 and gold fell US\$17.8 to US\$1,610.6 amid risk-on sentiment. Iron ore prices

picked up overnight as high frequency indicators such as traffic and electricity output suggested that life was returning to normal there.

**COVID-19:** The WHO's March 25 situation report showed a 40,712 increase in the number of new cases, leaving the global tally of confirmed cases at 414,179. The number of fatalities due to the pandemic is quickly approaching 20,000, with 2,202 new deaths reported overnight leaving the total at 18,440.

There have been some positive signs in the data, including a slowdown in the number of new daily deaths in Italy and possible signs of a slowing of the infection rate in the Netherlands, according to health authorities.

**Australia:** Skilled vacancies fell by 0.2% in February, after a fall of 0.3% in January. Skilled vacancies have consistently fallen each month since December 2018.

**Europe:** The German lower house of parliament suspended its "debt brake" in order to pass Chancellor Angela Merkel's stimulus package. The debt-financed bill is worth 156 billion euros, or nearly half of a normal yearly German budget, according to finance minister Olaf Schulz. Spending is targeted towards health care and keeping companies afloat.

German business confidence slipped from its initial reading. The IFO survey showed a fall in the headline index to 86.1 in March from 96.0 in February.

**New Zealand:** The trade deficit moved from a deficit of \$414 million in January to a surplus of \$500 million in February.

**United Kingdom:** There was a slight increase in consumer prices heading into the coronavirus outbreak, according February CPI data. Core inflation rose 1.7% annually in February. Rising inflation is becoming even less of a concern for policymakers ahead of the impending downturn in economic activity.

**United States:** US Senate leaders and the Trump administration reached agreement yesterday on a US\$2 trillion stimulus package to rescue the economy from the coronavirus assault, potentially setting the stage for swift passage of the massive legislation through both chambers of Congress. The agreement capped five straight days of intensive negotiations that occasionally descended into partisan warfare. The legislation, unprecedented in its size and scope, aims to flood the economy with capital by sending US\$1,200 checks to many

Americans, creating a US\$367 billion loan program for small businesses, and setting up a US\$500 billion fund for industries, cities and states. Other provisions include a massive boost to unemployment insurance, US\$150 billion for state and local stimulus funds and US\$130 billion for hospitals, among numerous other provisions.

It is not yet clear how quickly the Bill can be passed. Congress has not yet announced a time it will vote.

The head of the St Louis Federal Reserve, James Bullard, said that the package was "about right", but warned against catharsis. He said the economy was still bracing for an enormous shock and that "this is not stimulus".

Economic data for February showed durable goods orders rose 1.2% over the month, although the ex-transport measure fell 0.6%.

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

JN PPI Services Feb y/y exp 2.2% prev 2.3% (10:50am)  
 AU Business Impacts of COVID-19 (11:30am)  
 UK Retail Sales Ex Auto Fuel Feb exp -0.2% prev 1.6% (6pm)  
 UK Bank of England Policy Meeting (11pm)  
 EZ European Central Bank (ECB) Economic Bulletin (8pm)  
 US Trade Bal. Feb exp -\$63.4bn prev -\$65.9bn (11:30pm)  
 US GDP Q4 T Annualised exp 2.1% prev 2.1% (11:30pm)  
 US Core PCE Q4 exp 1.2% prev 1.2% (11:30pm)  
 US Initial Jobless Claims Mar 21 exp 1500k prev 281k (11:30pm)  
 US Kansas City Fed Mfg Activity Mar exp -10 prev 5 (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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