Morning report

Thursday, 2 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,258.6	3.6%		Last		Overnight Chg		Australia		
US Dow Jones	20,943.5	-4.4%	10 year bond	99.32		-0.03		90 day BBSW	0.33	-0.04
Japan Nikkei	18,065.4	-4.5%	3 year bond	99.75		-0.03		2 year bond	0.21	-0.04
China Shanghai	2,865.7	-0.6%	3 month bill rate	99.68		0.01		3 year bond	0.22	-0.02
German DAX	9,544.8	-3.9%	SPI 200	5,055.0		-169		3 year swap	0.36	-0.02
UK FTSE100	5,454.6	-3.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.68	-0.09
Commodities (close & change)			TWI	54.4	-	-	54.3	United States		
CRB Index	118.5	-3.3	AUD/USD	0.6170	0.6185	0.6039	0.6074	3-month T Bill	0.03	-0.06
Gold	1,577.2	11.7	AUD/JPY	66.48	66.36	64.87	65.11	2 year bond	0.24	-0.01
Copper	4,791.3	-152.0	AUD/GBP	0.4968	0.4973	0.4877	0.4906	10 year bond	0.60	-0.07
Oil (WTI)	21.2	0.7	AUD/NZD	1.0255	1.0350	1.0250	1.0259	Other (10 year yields)		
Coal (thermal)	66.7	-1.1	AUD/EUR	0.5582	0.5656	0.5518	0.5540	Germany	-0.46	0.01
Coal (coking)	144.2	-15.8	AUD/CNH	4.3875	4.3862	4.2963	4.3512	Japan	0.01	-0.01
Iron Ore	80.6	-7.4	USD Index	98.96	99.84	98.89	99.05	UK	0.31	-0.04

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

Main Themes: The risk averse mood in financial markets deepened overnight with several countries around the world extending their lockdowns and major UK banks cancelling dividends for 2020. Economic data overnight was also weak, including data for new orders and employment at US factories contracting in March at the fastest pace in 11 years.

Share Markets: US share markets found no relief after enduring the worst quarter since 2008. Equity markets dived overnight in the US, as investors braced for a longer economic slowdown that is likely to devastate corporate profits and dividends. The S&P 500 index is down 974 points (or -4.4%), which is the third fall in four trading sessions. The Dow Jones is off 114 points (or -4.4%).

In the UK, the FTSE was down sharply overnight after leading banks confirmed the suspension of dividend payments to shareholders for 2020. Almost a fifth of companies listed on UK's blue-chip FTSE 100 index have now cancelled or postponed dividends. This number is likely to rise as a nationwide shutdown persists. The FTSE 100 fell 217 points or 3.8% in last night's session.

Yesterday, the ASX 200 index rose by 182 points (or +3.6%); other share market indices across Asia fell.

Interest Rates: The US 2-year bond yield ranged between 0.22% and 0.25% overnight and is now down 1 basis point lower to 0.24%. The US 10-year bond yield fell from 0.66% to a three-week low of 0.58%, before recovering some ground to 0.60%.

The short-term funding spread, of 3-month Libor minus 3-month OIS, remained elevated at 137 basis points.

The Australian 3-year government bond yield declined from 0.26% to a record low of 0.22% yesterday, just under the Reserve Bank's target of 0.25%. Meanwhile, the Australian 10-year bond yield fell from 0.77% to 0.68%.

Foreign Exchange: The USD index was firmer in overnight trade, rising from a low of 98.9 to a high of 99.84. The stronger USD caused AUD/USD to lose some of its upward momentum. Since hitting 0.5510 on March 19, the AUD has grinded higher. Overnight, it briefly spiked to 0.6214 before dropping quickly to 0.6070. However, the AUD seemed uncomfortable above 0.6200. Downside risks remain to the outlook for the AUD while the global growth outlook remains dark and risk aversion among investors high.

Commodities: Saudi Arabia boosted crude supply to more than 12 million barrels a day, the most ever, after the lifting of OPEC+ limits. Russia on the other hand isn't turning up the taps. Russia and the US agreed that a glut hurts everyone and stressed the need to maintain dialogue.

Coal, iron ore and base metal prices fell overnight.

COVID-19: The number of confirmed infections around the world is approaching the one million mark. According to data from worldometer, there are 924,663 confirmed infections around the world and 46,368 deaths, which leaves a mortality rate of 5.0%. The US has the most infections at 209,105, followed by Italy at 110,574 and Spain at 102,179.

The number of infections rose by 101 in the past 24 hours to 4,864 with the number of deaths lifting to 21. Australia is ranked 20th in terms of the most infections around the world. Experts quoted in a Guardian news article suggest that there has been a drop in travel-related infections in Australia, but local transmission rates need to be carefully monitored and suppressed.

In COVID-19 news, New York Governor Andrew Cuomo said a model showed the COVID-19 outbreak may not peak in the state until the end of April. Ominously, Vice-President Pence has declared that COVID-19 in the US is on a similar trajectory to Italy. At a press conference yesterday, US President Trump and White House Coronavirus Task Force Coordinator Birx discussed projections indicating that COVID-19 deaths could extend to June. Trump told the country to brace for a tough stretch.

The Italian government announced it is extending its lockdown. The number of new daily cases does appear to have peaked in Italy, although the number of new cases remains uncomfortably high.

Several other European nations announced further extensions to lockdown restrictions, including Germany.

Australia: On March 19, the Reserve Bank (RBA) announced a package of measures following a special policy meeting the previous day. Yesterday, the minutes of that meeting were released, which revealed the board's discussion around those measures.

These measures included a cut to the cash rate to 0.25%, launching quantitative easing (QE) by setting a target for the 3-year government bond yield of "around" 0.25%, establishing a term funding facility and adjusting the remuneration for exchange settlement balances at the RBA. There were also some liquidity measures to improve smooth functioning in financial markets.

In the assessment of economic conditions, members noted that "it was likely that Australia would experience a very material contraction in economic activity, which would spread across the March and June quarters and potentially longer." Members also highlighted the uncertainty around when the economy would recover; "the size of the fall in economic activity would depend on the extent of the social distancing requirements, and potential lockdowns, put in place to contain the virus."

There was also housing-related data published yesterday. This data showed the housing market showed signs of promise before the outbreak of COVID-19 hit hard. There was both an increase in house prices and dwelling approvals in March and February, respectively.

Dwelling prices rose in March, despite disruptions to the housing market that ramped up in the second half of the month. Prices rose 0.7% across the combined capital cities, following a 1.2% increase in January, according to CoreLogic. On an annual basis, prices rose 8.9%, which is the fastest pace since August 2017.

Auction rates have been falling in recent weeks and suggest dwelling prices could decline over the next few months, as COVID-19 hurts consumer confidence and job insecurity concerns rise.

Building approvals jumped 19.9% in February, reversing a 15.1% fall in January. Approvals have been volatile in recent months, driven by large swings in high-rise approvals.

We anticipate a disruption to building activity over the next few months and the decline in approvals to continue, especially for high-rise density projects.

The AiG performance of manufacturing index (PMI) lifted from 44.3 in February to 53.7 in March; it is the first reading above 50, signalling expansion in five months. The jump may seem surprising given the downturn in economic activity due to the outbreak of COVID-19. The AiG has reported that there has been a surge in demand for manufactured food, groceries and personal care items, as household stock up on essential items. Australian manufacturers that produce these types of goods account for a relatively large proportion of Australian manufacturing.

China: The Caixin manufacturing PMI rebounded from 40.3 in February to 50.1 in March. It follows a similar pattern from the official PMI which also bounced back into expansion territory (above 50) in the month. The Caixin measure tends to include smaller firms, so it is encouraging to see these businesses are also recovering. Nonetheless, overall activity remains weak, and firms will face further challenges, particularly those which depend heavily on export demand.

Europe: Frances raised the potential of a Eurozone Coronavirus Rescue Fund ahead of the Eurogroup Summit next week.

Italy continues to prepare a larger secondary stimulus package after the inability of last week's Eurogroup Summit to agree on any fiscal coordination.

Japan: The Tankan survey indicated that conditions for both manufacturing and non-manufacturing sectors deteriorated in the March quarter, as COVID-19 increased its spread across the world. Indices for large manufacturing and non-manufacturing were both weaker, falling to -8 and 8, from 0 and 20, respectively. However, the deterioration was not as bad as consensus had feared. This might reflect the partial recovery of economic activity in China.

In other data, the Jibun manufacturing PMI was confirmed at 44.8 in March, well into contraction territory.

A fiscal stimulus package is reported to be under consideration by the Japanese government, worth in the vicinity of 10% of GDP.

United Kingdom: The UK's Prudential Regulatory Authority has urged commercial banks to preserve capital in order to help support the economy. Several the UK's biggest banks confirmed dividends would be scrapped for 2020. These include Barclays, Santander, Lloyds, NatWest, Standard Chartered and HSBC.

United States: ISM data overnight showed that new orders and employment at US factories contracted in March at the quickest pace in 11 years. The overall gauge fell 1 point to 49.1 in March. But the gauge for new orders tumbled by a larger 7.6 points to 42.2, which is the lowest level since March 2009. The employment sub-index slid to 43.8, the weakest since May of that year. Readings less than 50 indicate shrinking activity.

The final reading for the Markit purchasing managers' index (PMI) was confirmed at 48.5 in March. Like the ISM index, readings below 50 indicate a contraction in activity in the months ahead.

In other key data, US firms shed 27,000 jobs last month, nowhere near the 150,000 plunge expected by consensus. But it was a steep drop from the gain of 179,000 recorded in February. It is also the first decline since 2017. This ADP survey showed small employers reduced employment by 90,000 jobs, the steepest loss since April 2009.

The final piece of data was for construction spending in February. This data showed a decline of 1.3% in the month, after a rise of 2.8% in January.

According to Boston's Federal Reserve President, Eric Rosengren, the Federal Reserve's new lending program for small-and-medium-sized U.S. companies is "another couple" of weeks away. Rosengren explained that it is a complicated facility to appropriately scope and is "still in the design phase". Rosengren added he expects the US unemployment rate to hit at least 10% by the end of this quarter.

US Treasury Secretary Mnuchin overnight referred to the potential for a future infrastructure bill, but he and Democrats House Leader Pelosi stated that their key objective was to execute the recently passed stimulus.

Today's key data and events:

AU Job Vacancies Feb quarter prev 1.6% (11:30am)
AU NAB Business Survey Q1 (11:30am)
UK Nationwide House Prices Mar exp 0.0% prev 0.3% (5pm)
EZ Producer Prices Feb y/y exp -0.8% prev -0.5% (8.00pm)
US Trade Feb exp -$40.0bn prev -$45.3bn prev (11.30pm)
US Factory Orders Feb exp 0.2% prev -0.5% (1.00am)
US Durable Goods Orders Feb Final exp 1.2% prev 1.2%

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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