

Thursday, 30 April 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,393.4	1.5%	Last		Overnight Chg			Australia		
US Dow Jones	24,633.9	2.2%	10 yr bond	99.08				90 day BBSW	0.11	0.00
Japan Nikkei	19,771.2	-0.1%	3 yr bond	99.74				2 year bond	0.22	-0.01
China Shanghai	2,958.2	0.4%	3 mth bill rate	99.81				3 year bond	0.26	-0.01
German DAX	11,107.7	2.9%	SPI 200	5,468.0			108	3 year swap	0.31	0.00
UK FTSE100	6,115.3	2.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.92	-0.01
Commodities (close & change)*			TWI	57.2	-	-	57.7	United States		
CRB Index	111.9	3.7	AUD/USD	0.6488	0.6559	0.6490	0.6558	3-month T Bill	0.08	-0.02
Gold	1,713.4	5.6	AUD/JPY	69.33	69.96	69.29	69.92	2 year bond	0.20	-0.01
Copper	5,243.3	37.3	AUD/GBP	0.5222	0.5262	0.5223	0.5261	10 year bond	0.63	0.01
Oil (WTI)	15.4	3.0	AUD/NZD	1.0720	1.0722	1.0672	1.0689	Other (10 year yields)		
Coal (thermal)	51.3	0.0	AUD/EUR	0.5996	0.6031	0.5995	0.6031	Germany	-0.50	-0.03
Coal (coking)	132.2	0.0	AUD/CNH	4.5975	4.6399	4.5984	4.6394	Japan	-0.04	0.00
Iron Ore	83.8	0.2	USD Index	100.0	99.9	99.5	99.5	UK	0.29	0.00

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

Main Themes: Investor sentiment continued to improve overnight amid promising news about a COVID-19 vaccine. Investors were also heartened by US Federal Reserve Chair's commitment to do more to support the US economy.

The VIX index fell to its lowest level since late February, reflecting the improved appetite among investors for risk. The market seemingly also brushed aside data that showed a deep contraction in US GDP in the March quarter.

Share Markets: US share markets surged, mostly ignoring soft GDP data and only barely heeding warnings from US Federal Reserve policy makers of considerable risks to the medium-term economic outlook. US share markets rallied on hopes for a COVID-19 vaccine after positive data from a Gilead drug trial. US Federal Reserve Chair Jerome Powell pledging to take more action if needed and better-than-estimated revenue reports from Facebook and Google's parent company also underpinned stronger demand for shares. The S&P 500 index closed 76 points higher (or +2.7%) at a 7-week high and the Dow Jones ended up 532 points firmer (or +2.2%).

Interest Rates: US bond yields were mixed overnight. For the second session in a row, longer-dated maturities recorded a rise in yields. The US 10-year bond yield edged up 1 basis point.

Meanwhile, the US 2-year bond yield declined by 1 basis point.

Foreign Exchange: The AUD/USD continues to appreciate. Option-related sellers are slowing the rally above 0.6500, but demand for the AUD remains firm. The AUD/USD's overnight high is near 0.6600, where it is currently trading. The strength in the AUD is broad-based with the Australian trade-weighted index at a 2-month high.

We see a rising risk that the AUD will stretch to 0.7000 over the coming weeks, even though some technical indicators suggest the AUD is becoming overdue for some correction.

Isolating, testing and suppressing the virus in Australia has had better results than in many other developed economies. This comparative outperformance of suppressing the virus in Australia is also supporting demand for the AUD at a time when some analysts fear the US economy is facing a L-shaped outlook.

Commodities: World oil prices recovered some ground overnight, as commodity markets took heart from US Fed Chair's promise to take more action if needed.

COVID-19: The confirmed number of global infections rose to 3.204 million overnight, according to data from Worldometer. The UK now has the third highest death toll in the world, behind the US

and Italy, which the UK government says reflects improvements in its daily reporting system. In Australia, the number of confirmed infections has risen to 6,746 and the number of recovered cases to 5,667, leaving the number of active cases at 1,079. The death toll stands at 89.

US official and infectious-disease expert Fauci said that early results of a closely watched clinical trial offered "quite good news" regarding a potential Covid-19 therapy made by biotechnology company Gilead Sciences Inc. Gilead issued a news release saying it had become aware of results from a trial showing its experimental drug remdesivir helped patients recover more quickly than standard care.

Australia: Annual rates of both headline and underlying inflation edged higher in the March quarter. Annual headline inflation lifted from 1.8% to 2.2%, landing in the Reserve Bank's 2 to 3% per annum target band for the first time since the June quarter of 2018. Underlying (or trimmed mean) inflation increased from an annual rate of 1.6% to 1.8%. It was the strongest annual rate in over a year, but is below the RBA's target band. Underlying inflation is the preferred measure for the RBA in assessing broad-based price pressures.

The quarterly gain in prices was driven by the impact of the drought and bushfires on prices of some fresh food. Additionally, there were some demand-induced price spikes from stockpiling ahead of COVID-19 restrictions, especially for certain household products such as toilet paper and hand sanitiser. Prices for non-durable household products recorded firm growth.

The impact of COVID-19 also materialised in the tradables inflation measure, which fell for the first time in a year, as the plunge in oil prices caused automotive fuel prices to decline.

We are far from seeing this bounce as an uptick in price pressures. The stark drop in demand over the June quarter is expected to translate into broad-based price weakness. Indeed, a rapid fall in fuel costs, free childcare and a likely decline in rents point to the headline inflation gauge declining in the June quarter.

Europe: The Eurozone economic confidence index fell to 67.0 in April, from 94.5 in March.

Germany's growth of consumer prices softened to 0.8% in the year to March, from annual growth of 1.4% in February. Germany's government statistics office also forecast a GDP contraction for 2020 of 6.3% with growth returning in 2021 of 5.1%. The European Union will issue collated forecasts next

week.

New Zealand: New Zealand posted a trade surplus of \$672 million in March, the second consecutive surplus in a row. Exports were boosted by kiwifruit, dairy and meat, although log exports to China fell.

United States: The US Federal Reserve Open Market Committee (FOMC) met earlier this morning (AEST). There were no key policy announcements, which is as widely expected. The FOMC vowed to keep policy extremely loose, warning that the pandemic "poses considerable risks to the economic outlook over the medium term." The FOMC kept rates near zero as expected while leaving its guidance vague. Chair Jerome Powell predicted the next jobs report will show unemployment in double digits and second-quarter growth will fall at an unprecedented rate. Powell also said the US central bank would likely do more to support the economy amid the fallout from COVID-19.

The era of both unconventional monetary policy accommodation and massive Fed market intervention will not be ending anytime soon.

GDP data showed that the US economy shrank by an annualised 4.8% in the first quarter, a steeper decline than forecast and the biggest slide since the fourth quarter of 2008. The decline in GDP marks the beginning of a near-certain recession.

Personal consumption, the economy's bulwark, dived at a 7.6% rate, the steepest drop since the second quarter of 1980. Spending on services, which accounts for nearly half of total GDP, fell at an annual rate of 10.2%, the largest decline since the series began in 1947. Business spending also fell sharply, but residential investment surged. Government spending and the trade sector also added positively contributed to GDP in the quarter.

Larry Kudlow, the chief White House economist, said GDP in the June quarter will be "significantly worse" but should snap back in the second half of the year.

In other data, pending home sales plunged 20.8% in March, which was worse than consensus expected of a fall of 14.3%. It is the biggest fall since 2010. On a year ago, pending home sales fell 14.5%, which is a sharp turnaround from annual growth of 11.4% in February.

The US government's top infectious-disease expert, Anthony Fauci, said the early results from Gilead's vaccine trial offered "quite good news." The Food and Drug Authority (FDA) plans to announce emergency use authorisation for the drug possibly

within the week.

US President Trump's administration is organising a Manhattan Project-style effort to drastically cut the time needed to develop a coronavirus vaccine; the goal is to produce enough doses for most Americans by year's end. Called "Operation Warp Speed," the program will pull together private pharmaceutical companies, government agencies and the military to try to cut the development time for a vaccine by as much as eight months. There is no precedent for such rapid development of a vaccine.

Today's key data and events:

JN Indust. Production Mar exp -5.0% prev -0.3% (9.50am)
NZ ANZ Business Confidence Apr prev -73.1 (11.00am)
CH Manufacturing PMI Apr exp 51.0 prev 52.0 (11.00am)
CH Non-Mfg PMI Apr exp 52.5 prev 52.3 (11.00am)
AU Trade Price Indices Q1 (11:30am)
 Import Prices exp 1.0% prev 0.7%
 Export Prices exp 3.0% prev -5.2%
AU Priv. Sector Credit Mar exp 0.3% prev 0.4% (11.30am)
EZ German Retail Sales Mar exp -8.0% prev 0.8% (4pm)
EZ Unemployment Rate Mar exp 7.8% prev 7.3% (7.00pm)
EZ GDP Q1 exp -3.7% prev 0.1% (7.00pm)
EZ CPI Estimate Apr y/y exp 0.1% prev 0.7% (7.00pm)
ECB Monetary Policy Meeting (9.45pm)
US Personal Income Mar exp -1.5% prev 0.6% (10.30pm)
US Personal Spending Mar exp -5.0% prev 0.2% (10.30pm)
US PCE Core Mar y/y exp 1.6% prev 1.8% (10.30pm)
US Employ. Cost Index Q1 exp 0.6% prev 0.7% (10.30pm)
US MNI Chicago PMI Apr exp 37.7 prev 47.8 (11.45pm)

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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