Morning report

Bank of Melbourne

Friday, 31 July 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,051.1	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	26,313.7	-0.9%	10 yr bond	99.14		0.01		90 day BBSW	0.10	0.00
Japan Nikkei	22,339.2	-0.3%	3 yr bond	99.70		0.00		2 year bond	0.27	0.00
China Shanghai	3,445.1	-0.2%	3 mth bill rate	99.88		-0.01		3 year bond	0.27	0.00
German DAX	12,379.7	-3.5%	SPI 200	5,986.0		-28		3 year swap	0.20	0.00
UK FTSE100	5,990.0	-2.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.86	-0.02
Commodities (close & change)*			TWI	61.6	-	-	61.7	**United States**		
CRB Index	142.8	-1.6	AUD/USD	0.7159	0.7198	0.7121	0.7192	3-month T Bill	0.09	-0.02
Gold	1,956.6	-14.1	AUD/JPY	75.22	75.48	74.83	75.34	2 year bond	0.12	-0.01
Copper	6,439.8	-40.3	AUD/GBP	0.5535	0.5534	0.5453	0.5493	10 year bond	0.55	-0.03
Oil (WTI)	40.3	-0.9	AUD/NZD	1.0753	1.0801	1.0737	1.0740	**Other (10 year yields)**		
Coal (thermal)	61.9	0.3	AUD/EUR	0.6108	0.6100	0.6043	0.6071	Germany	-0.54	-0.04
Coal (coking)	113.0	0.0	AUD/CNH	5.0128	5.0397	4.9962	5.0370	Japan	0.02	0.00
Iron Ore	107.7	0.1	USD Index	93.7	93.7	92.9	92.9	UK	0.09	-0.03

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 7:15am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: Investor sentiment soured overnight after data showed US GDP collapsed in Q2 at an annualised rate of almost 33%, which is the most since records started. US President Trump's tweet, which floated the idea of a delay in the US election date, also added to the sour mood.

Share Markets: The key US share market bourses pared early losses, with tech gaining ahead of a slew of key earnings reports. However, both the Dow Jones and the S&P 500 index remained and closed underwater. A deep downturn in US GDP contributed to the weaker finish. US President Trump's election delay tweet also contributed to investor jitters. The Dow Jones closed 226 points lower (or -0.9%) and the S&P 500 index finished 12 points weaker (or -0.4%).

Yesterday, the ASX 200 index added 45 points (or +0.7%).

Interest Rates: US bond yields fell across the yield curve, as US GDP data and Trump's tweet contributed to demand for safe-haven assets. The US 2-year bond yield fell by 1 basis point and the US 10-year bond yield declined by 3 basis points.

Foreign Exchange: The US dollar index sold off after the release of US GDP data revealing a collapse in economic activity in Q2. The USD index fell from 93.6 to a low of 92.9, which is the lowest level since May 2018. The AUD appreciated against the USD in overnight trade, driven by this broad-based USD sell off. The AUD/USD pair again made a higher high than the previous night, reaching an overnight high of 0.7198. It rose to this level from 0.7121 before the US GDP data. We continue to expect the AUD to push towards 0.7400 against the US dollar within coming months (we published this target in mid June.

Commodities: The prices for oil and gold dropped back, but iron prices inched higher.

COVID-19: Yesterday, Victoria reported 743 new cases Victoria's Premier extended the lockdown to the rest of Victoria. There are 5,385 active cases in Victoria with 913 linked to outbreaks in aged care. There are more than 80 aged care centres in Victoria affected. NSW added 16 new infections yesterday with 2 of these infections in hotel quarantine having arrived from overseas.

In the US, Florida reported a record number of deaths for the third straight day. Arizona also hit a record for fatalities, but only after adding older data. Hospitalisations in Houston dropped for the ninth consecutive day. In Europe, France's coronavirus infection rate has almost doubled over the past three weeks while Germany reported the highest number of new cases in six weeks.

Australia: The Australian Bureau of Statistics (ABS) released a survey measuring the impact of COVID-

19 on businesses yesterday. The survey was conducted between 15 and 23 July. This iteration of the survey focused on the business support measures provided by the government, how they are being used and how businesses would respond once these support measures finish.

Two in five (42%) of businesses are currently accessing support measures, such as wage subsidies or loan repayment deferrals.

The ABS survey highlights a major uncertainty for businesses is the ending of government-support measures. Of note, 10% of businesses expect that they would need to close if government support measures finished. Employment is also likely to take a hit, as 13% of businesses said they would reduce staff without these measures.

Businesses are continuing to face difficult conditions. Almost half (47%) reported a decline in revenue over the past month (July), and expectations of future revenue point to businesses remaining pessimistic about the outlook. There were also signs of weaker hiring activity, although there were better signs for future hiring conditions.

There was a particular focus on the 'boosting cash flow for employers' measure, which 54% of businesses are receiving. This is a measure that is still due to end in September. To recap, this measure provides a tax-free cash flow boost between $20k and $100k to businesses delivered through credits in the activity statement system when businesses lodge their statements.

The extension of JobKeeper on 21 July for a further six months was a positive development last week. But the lack of extension on the cash flow boost measure is a key concern, especially as SME businesses remain focussed on preserving cashflow and building cashflow buffers against this fragile economic backdrop.

Building approvals fell another 4.9% in June, following a sharp 15.8% contraction in May. Approvals have declined for four consecutive months and are down 22.9% from their level in February. The number of approvals in June was its lowest in eight years.

Over the past few months, approvals for multi-unit dwellings have been hit hardest. Approvals for private sector 'other' dwellings in June was the lowest since January 2012.

Compared with February, approvals were 31.6% lower in Victoria, 29.0% lower in NSW and 24.1% lower in Tasmania, highlighting a relatively larger economic impact from COVID-19 on these States. In Queensland, approvals were down 14.8% from their level in February. In Western Australia (-9.7%) and South Australia (-3.9%) the decline in approvals have been more muted.

China: China's President Xi Jinping called for a greater push on reforms to stimulate domestic demand and help the economy to ride out mounting risks. He described conditions as "complicated and grave." China will also seek to stabilise trade, Xinhua said, citing a Politburo meeting. He indicated China's monetary stance will remain unchanged, but there will be more focus and a push to reduce borrowing costs. The Communist Party's Central Committee will meet in October to outline a new five-year plan.

Japan: Retail sales rose by 13.1% in June, beating market expectations and following from a gain of 1.9% in May. On a year ago, retailing is still shrinking. The annual rate was down 1.2% in June.

New Zealand: Building permits rose 0.5% in June, after a spike of 35.6% in May.

Europe: GDP in Germany contracted by 10.1% in Q2, which was worse than market consensus. It follows a contraction of 2.0% in Q1, confirming a recession in Germany.

Several confidence measures were published overnight for the eurozone, including for industrial, services and economic. These measures improved for July. In other data, the unemployment rate in the eurozone rose from 7.7% in May to 7.8% in June.

United States: GDP fell at an annualised rate of 32.9% in Q2 (not a typo!), which compares to consensus expectations of a decline of 34.5%. It is the worst outcome since GDP was first recorded and follows a contraction in GDP of 5.0% in Q1. A big drop in consumer spending played a large role in the collapse in economic activity. Declines in business investment, inventories and exports also played a role in the decline in GDP.

The recent labour market improvement has also come undone. Initial jobless claims for the week ending July 25 rose to 1.43 million, from a revised 1.42 million, with continuing claims also increasing to 17.0 million from 16.2 million. This data suggests the number of people laid off is starting to rise again.

US President Trump floated the idea of delaying the election in a tweet, something he has no power to do. Trump claimed without evidence that mail-in voting will make 2020 "the most inaccurate and fraudulent" election in history. Coming as he trails in the polls nationally and in several battleground states, the tweet will heighten speculation Trump will refuse to concede should he lose to Joe Biden on November 3. Changing the election date requires an act of Congress.

Today's key data and events:

NZ Consumer Confidence Jul prev 7.4% (8am)
JN Jobless Rate Jun exp 3.1% prev 2.9% (9:30am)
JN Industrial Production Jun exp 1.0% prev 8.9% (9:50am)
CH Composite PMI Jul prev 54.2 (11am)
CH Manufacturing PMI Jul exp 50.8 prev 50.9 (11am)
CH Non Manufacturing PMI Jul exp 54.5 prev 54.4 (11am)
AU Private Sector Credit exp -0.2% prev -0.1% (11:30am)
AU Producer Prices Q2 prev 0.2% (11:30am)
JN Consumer Confidence Jul prev 28.4 (3pm)
UK N'wide House Prices Jul exp -0.2% prev -1.4% (4pm)
EZ GDP Q2 A exp -12.1% prev -3.6% (7pm)
EZ CPI Jul exp -0.5% prev 0.3% (7pm)
US Personal Income Jun exp -0.6% prev -4.2% (10:30pm)
US Personal Spending Jun exp 5.2% prev 8.2% (10:30pm)
US PCE Core Deflator Jun exp 0.2% prev 0.1% (10:30pm)
US Employ. Cost Index Q2 exp 1.0% prev 1.0% (10:30pm)
US MNI Chicago PMI Jul exp 44.5 prev 36.6 (11:45pm)
US UoM Cons. Sentiment Jul F exp 72.9 prev 73.2 (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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