Morning report

Wednesday, 3 June 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,835.1	0.3%		Last		Overnight Chg		Australia		
US Dow Jones	25,742.7	1.1%	10 yr bond	99.09		-0.02		90 day BBSW	0.10	0.00
Japan Nikkei	22,325.6	1.2%	3 yr bond	99.74		0.00		2 year bond	0.27	0.00
China Shanghai	3,062.2	0.2%	3 mth bill rate	99.86		-0.01		3 year bond	0.26	0.00
German DAX	12,021.3	3.7%	SPI 200	5,861.0		31		3 year swap	0.27	0.01
UK FTSE100	6,220.1	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.91	0.01
Commodities (close & change)*			TWI	59.3	-	-	59.8	United States		
CRB Index	134.1	1.8	AUD/USD	0.6800	0.6898	0.6775	0.6889	3-month T Bill	0.14	0.00
Gold	1,727.7	-11.8	AUD/JPY	73.21	74.98	72.93	74.84	2 year bond	0.16	0.01
Copper	5,508.8	45.3	AUD/GBP	0.5444	0.5496	0.5419	0.5490	10 year bond	0.69	0.03
Oil (WTI)	36.9	0.0	AUD/NZD	1.0796	1.0881	1.0791	1.0817	Other (10 year yields)		
Coal (thermal)	56.5	0.2	AUD/EUR	0.6109	0.6177	0.6091	0.6168	Germany	-0.42	-0.01
Coal (coking)	105.6	1.1	AUD/CNH	4.8478	4.9032	4.8322	4.8962	Japan	0.01	0.00
Iron Ore	98.1	0.9	USD Index	97.8	97.9	97.4	97.7	UK	0.22	-0.01

Copper, oil, coal & iron ore prices are based on futures pricing. Source: Bloomberg, Thomson Reuters Eikon.
Data as at 8am AEST. Change from previous trading day (excluding the SFE which is the change during the night session).

Main Themes: The run of positive sentiment continued, as markets shrugged off the unrest in the US. Focus was on recovery and on the easing lockdown restrictions.

Share Markets: US shares rose for the third consecutive session. The Dow Jones index gained 1.1% and the S&P500 lifted 0.8%. In Europe, equity markets had strong gains, helped by hopes of a big stimulus package worth at least 100 billion euro in Germany. The DAX led the way, lifting 3.8%.

Interest Rates: The risk-on mood extended to the bond market, resulting in a lift in US bond yields, particularly at the longer end of the curve. Expectations of stronger supply could also be propping up yields. However, the US Federal Reserve has recently flagged yield-curve control as a possible tool in providing the economy support, which might make investors cautious in the near term. Movements in yields could remain muted as a result. The US 10-year yield rose 3 basis points to 0.69%.

Foreign Exchange: The US dollar index declined further, as risk appetites improved. Some analysts have attributed US dollar weakness to the protests, but the US dollar gain against the JPY would suggest it is mostly reflecting a risk play. EUR and GBP rose against the US dollar. Sterling was helped by signs of positive developments in Brexit negotiations.

In terms of the AUD/USD exchange rate, it reached an overnight high overnight of 0.6898, which is the highest since January 17. We had flagged in our morning report on April 30 that we expect AUD/USD to reach 0.7000 within coming weeks. The AUD's overnight moves suggest it could reach our short-term target soon.

Commodities: Oil prices rose ahead of a meeting with major oil producers. Expectations are high that production cuts would be extended.

COVID-19: In Australia, the Department of Health reported 17 new cases in the past 24 hours taking total cases to 7,221.

Australia: A plethora of data was released yesterday, including partial economic indicators for today's all-important March quarter GDP release. The data was mixed. However, strength in net exports and government spending have contributed to us revising up our forecast for GDP to -0.4% in the March quarter. The large shock from COVID-19 suggests a greater degree of variability than usual to our forecast.

The Reserve Bank (RBA) left its policy settings unchanged at its Board meeting yesterday. The key take out from the accompanying statement was that "it is possible that the depth of the downturn will be less than earlier expected".

The RBA added that there are signs that hours worked stabilised in early May and there has been a pick-up in some forms of consumer spending.

But the central bank was quick to underscore that the outlook, including the nature and speed of the expected recovery, “remains highly uncertain and the pandemic is likely to have long-lasting effects on the economy”.

It is clear we can continue to expect low rates to be here for a long time. There will be no hike to the cash rate for at least three years, possibly longer. The RBA’s yield target is also likely to be around for an extended time.

Meanwhile, the current account registered its fourth and largest ever surplus in the March quarter. It widened by $6.7 billion to $8.4 billion.

The mammoth surplus did not come under ideal circumstances. A health crisis and a natural disaster resulted in imports falling by more than exports. However, commodity prices rose over the quarter, which provides support to incomes. The goods and services surplus rose to $19.2 billion.

Exports volumes fell 3.5% and import volumes fell by 6.2%. Net exports are expected to contribute 0.5 percentage points to GDP growth in the March quarter.

Trade in services was disproportionately affected due to international travel restrictions placed on China and other countries affected by COVID-19 early in the year. The volume of services exports fell by 12.8% in the March quarter, the weakest since the December quarter of 2000.

The volume of services imports fell 13.6%, their largest fall in the history of the series, dating back to December 1959.

Separate data showed that gross company operating profits rose 1.1% in the March quarter, the first increase in three quarters.

Profits in sectors including mining, manufacturing, retail and other services rose during the quarter. Profits in these sectors comprise a larger proportion of total profits in comparison to accommodation & food services and arts & recreation services, where profits declined. These latter sectors also had a more direct impact on business operations in the quarter.

Wages & salaries were flat in the March quarter, reflecting the deterioration in the labour market over late March. It was the first time wages and salaries did not grow since the December quarter of 2016.

Inventories declined sharply in the March quarter, falling 1.2%. It was the biggest decline in over five years. The combination of COVID-19-related restrictions and bushfires has likely had a detrimental impact on production, resulting in a drawdown in inventories across most sectors. Inventories are set to detract a sizeable 0.5 percentage points from GDP growth in the March quarter.

Government spending increased in the quarter and is expected to provide a modest contribution to GDP growth in the March quarter. Government spending will be an important pillar of support while much of the economy struggles as it adjusts to a new world with COVID-19.

New Zealand: Dwelling approvals fell 6.5% in April following a 22.0% drop in March. A much larger decline in approvals was expected due to the strict lockdown measures in place for most of the month.

Approvals had been trending higher prior to the COVID-19 outbreak, and once restrictions are fully eased, a return to growth is likely in the coming months. However, given the uncertain backdrop and cautious consumers and businesses, construction activity will likely be muted.

United Kingdom: Nationwide house prices fell 1.7% in May, the largest monthly fall since February 2009. The fall in prices reflects the COVID-19-related restrictions in place and the impact from the sharp downturn in economic activity.

United States: A nightly curfew of 8pm has been imposed in New York to assist police in dealing with violence and vandalism. Despite the protests across the country, the process of lifting COVID-19-related restrictions remains on track.

Please refer to today’s key events over the page.

Today's key data and events:

AU CBA Australia PMI Composite May F prev 26.4 (9am)

JN Jibun Bank Japan PMI Services May F prev 25.3 (10:30am)

AU GDP Q1 (11:30am)

Q/Q exp -0.4% prev 0.5%

Y/Y exp 1.3% prev 2.2%

AU Building Approvals Apr exp -15.0% prev -4.0% (11:30am)

CH Caixin Services PMI May exp 47.3 prev 44.4 (11:45am)

EZ Markit Services PMI May F exp 28.7 prev 28.7 (6pm)

EZ Producer Prices Apr exp -1.8% prev -1.5% (7pm)

EZ Unemployment Rate Apr exp 8.2 prev 7.4 (7pm)

US ADP Employment Change May exp -90,00k prev -20,236k (10:15pm)

US Markit Services PMI May F exp 37.3 prev 36.9 (11:45pm)

US Factory Orders Apr exp -13.4% prev -10.3% (12am)

US Durable Goods Apr F exp -17.2% prev -17.2% (12am)

US Capital Goods Ex Air Apr F exp -5.8% prev -5.8% (12am)

US ISM Non-Mfg Index May exp 44.4 prev 41.8 (12am)

NZ QV House Prices May y/y prev 7.1 (3am)

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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