

Wednesday, 6 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,407.1	1.6%			Last	Overnight Chg		Australia		
US Dow Jones	23,883.1	0.6%	10 yr bond	99.13				90 day BBSW	0.10	0.00
Japan Nikkei	19,619.4	-2.8%	3 yr bond	99.76				2 year bond	0.21	0.00
China Shanghai	2,997.6	1.3%	3 mth bill rate	99.81				3 year bond	0.24	0.00
German DAX	10,729.5	2.5%	SPI 200	5,405.0				3 year swap	0.27	0.00
UK FTSE100	5,849.4	1.7%	FX Last 24 hrs					10 year bond	0.87	0.04
Commodities (close & change)*			TWI	56.3	-	-	56.9	United States		
CRB Index	123.6	5.1	AUD/USD	0.6428	0.6476	0.6417	0.6437	3-month T Bill	0.10	-0.01
Gold	1,705.9	3.9	AUD/JPY	68.62	68.99	68.46	68.61	2 year bond	0.19	0.01
Copper	5,103.3	12.8	AUD/GBP	0.5167	0.5189	0.5160	0.5174	10 year bond	0.66	0.03
Oil (WTI)	25.3	4.9	AUD/NZD	1.0622	1.0659	1.0616	1.0644	Other (10 year yields)		
Coal (thermal)	52.7	0.6	AUD/EUR	0.5896	0.5958	0.5887	0.5936	Germany	-0.58	-0.02
Coal (coking)	108.4	0.6	AUD/CNH	4.5838	4.6060	4.5716	4.5851	Japan	-0.02	0.00
Iron Ore	80.8	0.8	USD Index	99.5	100.0	99.3	99.8	UK	0.21	-0.03

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 was risk-on as plans progressed for a gradual easing of lockdowns in several countries around the world. Stocks rose and oil prices jumped.

The mood was dampened somewhat late in the session by sobering comments from Fed officials about the economic outlook. Germany's top court ruled that the ECB's bond buying program is unlawful.

Share Markets: US share markets held onto early gains, buoyed by an expected recovery in demand for goods and services following signs of an easing of containment measures and plans to reopen stores in some US states such as California. Health care and IT stocks registered the biggest rises. Sentiment was dented late in the session following comments from the Federal Reserve's Clarida that the economic contraction was "the worst seen in our lifetimes". The S&P 500 closed up 0.9%, after trading as much as 1.9% higher. The Dow Jones closed 0.6% higher.

European stocks rose, despite a challenge to the ECB's bond buying program from the German courts. Instead, investors focussed on the possibility of a gradual reopening of some of the economies hardest-hit by the coronavirus, including Italy. The Euro Stoxx 50 rose 2.1%.

Interest Rates: The US yield curve steepened on

hopes for an economic recovery following the easing of restrictions and looming large supply. The 2-year yield rose 1 basis point to 0.19% while the 10-year note yield rose 3 basis points to 0.66%.

Australia's yield curve also rose at the long end yesterday. The 10-year yield rose 4 basis points to 0.87% while the other key tenors were unchanged.

Foreign Exchange: The US dollar index rose, led by weakness in the euro. The US dollar index is currently trading at 99.809, up from 99.502 yesterday. The euro dropped after a German court ruled that the ECB's bond buying program was unlawful. It is currently trading at US\$1.0844.

Other currencies, including those linked to commodities, fared better against the US dollar. The AUD eked out a small gain to US\$0.6437 after testing US\$0.6480 before falling back.

Commodities: The price of oil surged on bets of a recovery in demand and as output cuts began to take effect. Brent crude futures briefly touched US\$30 per barrel before falling back while WTI futures finished the session up 24.0% at US\$25.3 per barrel.

Gold prices were broadly flat at US\$1,705.9 per ounce.

COVID-19: Globally confirmed cases rose by 63,532 to 3.68 million as of this morning, according to Bloomberg. The same data show that global

fatalities rose 4,248 to 255,823.

The UK's death toll rose past Italy's, leaving it with the highest number of fatalities in Europe and the second highest in the world after the US. Hong Kong moved to ease its restrictions while the German state of Bavaria set out plans to reopen its economy. In the US, California also laid out plans to gradually ease containment measures.

Australia reported 25 new cases as of 3pm yesterday, bringing the total confirmed number to 6,849 including 96 deaths, according to the Department of Health. Prime Minister Scott Morrison yesterday flagged a tentative road to economic recovery, which includes the reopening of workplaces under certain conditions in July.

Australia: The AiG performance of construction index plunged further from 37.9 in March to 21.6 in April, the lowest on record since the survey began in 2005. The sharps falls reflected all key sectors, including houses, apartments, commercial and engineering.

Weekly data from a new series by the Australian Bureau of Statistics (ABS) show that labour market conditions continued to crumble in mid-April. The labour market in all key industries deteriorated, but the most pronounced decline in jobs was in the accommodation & food and arts & recreation services sectors. The jobs index fell 7.5% over the five weeks ending April 18. Over the same period, the wage index fell 8.2%. Social distancing measures were first introduced in the week ending March 14, when Australia recorded its 100th case of the novel coronavirus. Historical values for the new series suggest that the payrolls data is not a precise indicator of the monthly labour force survey, which provides the official statistics for employment and the unemployment rate. However, it is clear that labour market conditions deteriorated sharply in April and employment is expected to fall significantly. Our forecast is that the labour force survey will show that 450k jobs were lost in April, causing the unemployment rate to spike to 8.3% from 5.2% in March.

The Reserve Bank (RBA) left policy settings unchanged at its meeting today. These include the target for the cash rate and the 3-year government bond yield at 0.25%. However, the RBA announced it was broadening the range of corporate debt securities that are eligible as collateral for domestic market operations. Investment grade securities are now eligible. The broadened criteria will enhance liquidity and improve functioning in credit markets.

There was a small hint of improvement regarding the global outlook, recognising that "the containment measures have reduced infection rates in a number of countries. If this continues, a recovery in the global economy will start later this year..." There was also better news within financial markets, which were "working more effectively than they were a month ago", although the RBA added that conditions have not completely normalised. The RBA has reiterated that the cash rate target will not increase until progress "is being made towards full employment and it is confident that inflation will be sustainably within the 2 to 3% target band". The RBA's forecasts suggest this will not happen for some time.

Europe: Germany's top court issued a ruling that the European Central Bank's bond buying program is unlawful and that it must provide justification or end the purchases in 3 months. The debate has focused on whether or not the ECB's purchases amount to direct financing of governments.

The ruling does not affect the recently announced pandemic-fighting purchase scheme worth 750 billion euros. It adds some uncertainty to the future of the ECB's 2-trillion asset purchasing scheme.

New Zealand: Building permits declined 21.3% in March, the largest monthly decline since October 2008. Permits are volatile month to month, but the sharp drop partly reflects the impact of the strict social distancing measures implemented in the month.

United States: The ISM non-manufacturing PMI fell to 41.8 in April from 52.5 in March. It was slightly higher than the market was expecting, but sub-indices in the release fell sharply. The business activity index fell to a record low of 26.0 from 48.0 while new orders fell to 32.9 from 52.9. The employment index dropped to 30.0 in April from 47.0 in March.

Other data showed that the US trade deficit widened in March as exports fell dramatically, offsetting a fall in imports. The trade deficit widened 11.6% to US\$44.4 billion, the largest since December 2018.

Speakers from the Federal Reserve expressed optimism that the US economy could start to recover by the end of the year, but issued warnings that the recovery was likely to be slow and uneven. Comments from Vice Chair Clarida suggested that it would be difficult to achieve a V-shaped recovery. He said "We're living through the most severe contraction in activity and surge in unemployment

we've seen in our lifetimes". He forecasts a recovery in the second half of the year, but cautioned that this was governed by progress towards containing the coronavirus.

Today's key data and events:

NZ Unemployment Rate Q1 exp 4.4% prev 4.0% (8.45am)

NZ Employment Q1 exp -0.2% prev 0.0% (8.45am)

NZ Private Wages Ex. Overtime Q1 exp 0.5% prev 0.6% (8.45am)

AU Retail Sales (11.30am)

Values Mar exp 8.2% prev 0.5%

Volumes Q1 exp 1.6% prev 0.5%

EZ Ger. Factory Orders Mar exp -10.0% prev -1.4% (4pm)

EZ Markit Services PMI Apr final exp 11.7 prev 11.7 (6pm)

EZ Retail Sales Mar exp -10.6% prev 0.9% (7.00pm)

US ADP Employment Change Apr exp -20500k prev -27k (10.15pm)

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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