Morning report

Thursday, 7 May 2020

Equities (close & % change)		
S&P/ASX 200	5,384.6	-0.4%
US Dow Jones	23,664.6	-0.9%
Japan Nikkei	19,619.4	-2.8%
China Shanghai	3,016.5	0.6%
German DAX	10,606.2	-1.1%
UK FTSE100	5,853.8	0.1%
Commodities (close & change)*		
CRB Index	121.5	-2.1
Gold	1,685.7	-20.2
Copper	5,173.8	37.3
Oil (WTI)	24.1	-0.5
Coal (thermal)	52.8	0.7
Coal (coking)	108.9	0.5
Iron Ore	81.0	0.2

Sydney Futures Exchange (close & change)				
	Last		Overnight Chg	
10 yr bond	99.07		-0.02	
3 yr bond	99.75		0.00	
3 mth bill rate	99.82		0.00	
SPI 200	5,348.0		-48	
FX Last 24 hrs	Open	High	Low	Current
TWI	56.9	-	-	56.9
AUD/USD	0.6437	0.6453	0.6394	0.6405
AUD/JPY	68.60	68.63	67.86	67.94
AUD/GBP	0.5174	0.5211	0.5161	0.5187
AUD/NZD	1.0644	1.0666	1.0613	1.0656
AUD/EUR	0.5936	0.5965	0.5924	0.5932
AUD/CNH	4.5858	4.5932	4.5585	4.5662
USD Index	99.8	100.2	99.8	100.2

Interest rates (close & change)		
Australia		
90 day BBSW	0.11	0.01
2 year bond	0.23	0.01
3 year bond	0.25	0.01
3 year swap	0.27	0.00
10 year bond	0.92	0.05
United States		
3-month T Bill	0.11	-0.01
2 year bond	0.18	-0.01
10 year bond	0.70	0.04
Other (10 year yields)		
Germany	-0.51	0.07
Japan	-0.02	0.00
UK	0.23	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 deteriorated slightly overnight. However, asset markets were mixed. US share markets declined, but US longer dated bond yields hit a 3-week high. US data showed a loss of 20.2 million jobs, according to the ADP, which suggests this Friday's payrolls report in the US will be ugly. The US dollar strengthened against other major currencies overnight, but its appreciation in recent days may be tested before the week is out.

Share Markets: US share markets fell for the first day in three session, although technology-related shares fared better on bets Apple and Microsoft will thrive in the work-from-home world. The Dow Jones lost 218 points (or -0.9%) and the S&P 500 index lost 20 points (or -0.7%).

The S&P ASX 200 index lost 22 points yesterday (or -0.4%). It is up 18.5% from the low it struck this year on March 23, but is down 25.0% since the peak on February 20.

Interest Rates: Longer dated US government bonds extended a global sell off overnight, sending 10-year global bond yields higher. The US 10-year government bond yield rose 4 basis points to 0.70%, which is its highest level in 3 weeks.

The US Treasury's increased funding program had an impact. The US Treasury announced will boost long-term refunding debt sales next week to a record US$96 billion. It also announced the first issuance of 20-year bonds since the mid-1980s and will increase other maturities with a focus on longer-dated debt over the quarter. Durations for everything from seven years were more than expected with the 20-year way above the highest dealer estimate. The Treasury has raised a net US$1.46 trillion since the end of March.

Meanwhile, US 2-year government bond yields lost 1 basis point to close at 0.18%.

Australian 3-year government bond yields nudged higher to 0.26%, while the 10-year government bond yield rose from 0.90% to 0.94%.

Foreign Exchange: The Australian dollar lost ground overnight, as the US dollar recorded broad-based strengthen. The AUD/USD exchange rate fell from an overnight high of 0.6453 to an overnight low of 0.6394. Since April 30 and hitting a 2-month high of 0.6570, the AUD has generally been under downward pressure, as it undergoes a correction. The AUD/USD faces an acid test of strength now. The more underlying strength there is, the shorter in duration and shallower this pullback will be. Major support for AUD/USD sits at 0.6250-0.6300.

Commodities: The world price of oil slid overnight, despite news that US crude inventories increased by the smallest amount in six weeks.

COVID-19: The number of new infections on May 6 was 79k worldwide, which remains down on the peak daily infections of 103k recorded on April 4. Total confirmed infections are 3,777,273.

In the UK death toll has passed through 30k, which is the first European country to do so.

In Australia, there were 24 new cases added on May 6, taking the total number of infections to 6,849. The number of active cases has continued to fall.

In more positive news, especially for fans of soccer, the German league is soon restarting.

Australia: The value of retail sales rose by a new record in March, up 8.5% compared with a 0.5% increase in February. It beats the previous record set in June 2000 of 8.1%, just before the GST came into effect on 1 July 2000.

Purchases related to food and working from home rose sharply in March, as did pharmaceutical, cosmetics & toiletries. Food retailing was up 24.1% in the month – the biggest gain on record. Other recreational goods (including bicycles) also rose sharply over the month.

Offsetting some of the spending surge on lockdown-related items, discretionary spending, such as spending on clothing, footwear & personal accessories fell sharply. Spending on cafes, restaurants & takeaway also declined significantly.

The volume of retail sales rose 0.7% over the March quarter and on a year ago lifted 1.1%.

The small rise in volumes in the March quarter compared with a 2.7% increase in nominal sales in the same period reveals that the nominal retailing spike was influenced by higher prices. The retail price deflator rose by 1.9% in the March quarter, the biggest rise since Q3 of 2000.

We expect retailing to weaken over coming months, especially as discretionary spending is hit by rising unemployment and household incomes come under pressure. Spending related to hoarding may also be unwound.

New lending growth for housing lifted 1.2% in March and was entirely driven by owner-occupier lending growth. There was further weakening in demand from investors; investor lending declined 2.5% in March, which is the third consecutive monthly fall. Investors are likely to have greater concerns about the purchase of new residential property given the uncertainty with regards to the impact of COVID-19 on the housing market. Moreover, the expected lift in vacancy rates and likely drop in rents add another layer of concern for investors.

Europe: Retail sales fell 11.6% in March, after a fall of 0.6% in February. The deep fall underscores the hit to spending activity as the lockdowns began.

The final purchasing managers' index (PMI) for services in April was 12.0, which was not much changed from the preliminary dire reading of 11.7. It is down 14.4 points from March's outcome. Meanwhile, the final reading for the composite PMI in April was also little changed from the preliminary reading at 13.6. It is down 13.6 points from the previous month. Both PMIs again highlight the severe impact of the pandemic and the collapse in activity.

In Germany, factory orders slumped 15.5% in March, worse than consensus expectations that centred on a decline of 10.0%. A collapse in capital-goods orders drove the decline; capital-goods orders fell 22.6% in the month.

The European Union (EU) published its Spring 2020 economic forecasts, consolidating national forecasts. It warned that the uneven impacts of COVID-19 posed risks to the stability of the region. The forecasts central profile is for Eurozone GDP to contract by 7.7% in 2020 and then rebound by 6.3% in 2021.

Bu the big talking point in Europe is still Germany's court ruling earlier this week, which essentially challenged the view of the European Court of Justice (ECJ) and asked the European Central Bank (ECB) to justify its bond-buying programme. Overnight, the ECB pushed back and responded that they would continue to support the region and ensure monetary transmission to the German Constitutional decision. The ECB's Villeroy (who is also the Head of France's central bank) stated that they would continue to be flexible and innovative to deliver their price stability mandate, indicating that the ECJ had supported their prior actions.

New Zealand: The March quarter surveys for the labour market paint a mixed picture. The unemployment rate edged up to 4.2% in the March quarter, from 4.0% in the December 2019 quarter. Employment rose by 0.7% while the labour cost index edged up 0.3% over the quarter.

Lockdown measures were introduced in the last week of March, leaving only a small window for the measures to affect quarterly data. A significant shock to the labour market due to the COVID-19 pandemic is expected in the current June quarter.

United Kingdom: The construction PMI fell 31.1 points to 8.2 in April, which is a much deeper decline than consensus expected.

United States: Employment at US companies plunged 20.2 million in April, according to ADP data, which is a record-sized fall. The ADP labelled the losses as "unprecedented". Furthermore, the job losses recorded in March were revised, from a decline of 27,000 to a much bigger drop of 149,000.

This result from ADP suggests the non-farm payrolls due for release this Friday will be incredibly weak. Currently, consensus anticipates non-farm payrolls will fall by 21.3 million and the unemployment rate will spike from 4.4% in March to 16.0% in April.

St. Louis Federal Reserve President James Bullard recommended a gradual re-opening of the US economy in the second half of the year, while predicting the April jobs report will be one of the worst on record. Bullard told CNBC that "you risk getting into a financial crisis or even a depression scenario" with a prolonged shutdown. Bullard added that he expects a relatively rapid rebound in the fourth quarter of this year, after a transition period.

The Dallas Federal Reserve President, Robert Kaplan, also gave remarks overnight. He said he expects US GDP in Q2 to fall between 25% to 30% on an annualised basis and expects the unemployment rate to peak around 20%. But Kaplan also expects an economic recovery to start in Q3, although anticipates this recovery to be "very phased and very gradual". He also confirmed the Fed will keep policy very accommodative for an extended period.

The Federal Reserve's Barkin said the mountain of debt will have to be addressed at some point, but not now.

In political news, the Us Secretary of State Pompeo upped the tension with China when he further criticised China's handling of the pandemic's spread.

Today's key data and events:

AU AiG Perf of Services Index Apr prev 38.7 (8:30am)

AU Trade Mar exp $6800mn prev $4361mn (11:30am)

CH Caixin Services PMI Apr exp 50.1 prev 43.0 (11:45am)

UK Bank of England Monetary Policy Decision (4pm)

Bank Rate exp 0.100% prev 0.100%

Asset Purchase Program Total exp £645bn prev £645bn

AU Foreign Reserves Apr prev $90.6bn

EZ ECB's De Guindos Presents Annual Report

UK BOE Publishes Governor Bailey Briefing

US Initial Jobless Claims w/e May 2 exp 3,000k prev 3,839k (10:30pm)

EZ ECB President Largarde Particpates in Webinar (12am)

US Federal Reserve's Kashkari Speaks (2am)

US Consumer Credit Mar exp $15b prev $12.331b (5am)

US Federal Reserve's Harker Speaks (6am)

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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