

Friday, 8 May 2020

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	5,364.2	-0.4%			Last	Overnight Chg		Australia		
US Dow Jones	23,875.9	0.9%	10 yr bond	99.10		0.02	90 day BBSW	0.10	-0.01	
Japan Nikkei	19,674.8	0.3%	3 yr bond	99.75		0.00	2 year bond	0.23	0.00	
China Shanghai	3,009.6	-0.2%	3 mth bill rate	99.83		0.01	3 year bond	0.25	0.00	
German DAX	10,759.3	1.4%	SPI 200	5,373.0		5	3 year swap	0.26	-0.01	
UK FTSE100	5,936.0	1.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	0.93	0.01
Commodities (close & change)*			TWI	56.9	-	-	56.8	United States		
CRB Index	122.6	1.0	AUD/USD	0.6405	0.6506	0.6379	0.6496	3-month T Bill	0.08	-0.03
Gold	1,716.1	30.3	AUD/JPY	67.94	69.16	67.63	69.06	2 year bond	0.14	-0.04
Copper	5,173.8	37.3	AUD/GBP	0.5187	0.5268	0.5174	0.5256	10 year bond	0.64	-0.06
Oil (WTI)	23.4	-0.6	AUD/NZD	1.0656	1.0699	1.0635	1.0670	Other (10 year yields)		
Coal (thermal)	53.3	0.1	AUD/EUR	0.5932	0.6019	0.5909	0.5997	Germany	-0.55	-0.04
Coal (coking)	113.3	4.4	AUD/CNH	4.5662	4.6156	4.5501	4.6069	Japan	0.01	0.02
Iron Ore	82.8	2.0	USD Index	100.2	100.4	99.8	99.9	UK	0.24	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: Stocks rose as investors continued to look ahead for signs of a global economic recovery. Another large weekly increase in US initial jobless claims failed to dent optimism.

The scheduling of a phone call between trade officials from the US and China helped to soothe some nerves over escalating tensions between the two countries.

Share Markets: The Dow Jones rose 0.9% and the S&P 500 was up 1.2%. A 1.4% increase in the NASDAQ means that the tech-heavy index has now erased all of its losses registered over 2020 (which were 24% at one point). Equity investors have been emboldened recently by indications that some regions are beginning to lift lockdowns and as global central banks have unleashed record amounts of stimulus.

European stocks also rose, with the Euro Stoxx 50 up 1.3%.

Interest Rates: US bond yields fell across the curve overnight; the 2-year yield to a record low 0.14%. The yield on the US 10-year note fell 6 basis points to 0.64%.

Despite comments from Fed Chair Jerome Powell that he didn't think that negative interest rates were appropriate in the US, Fed funds futures for 2021 dipped into negative territory for the first time ever. A negative implied rate could be the result of

investors pricing in some chance of a negative rate in the future, or it could reflect an excess of liquidity in the market.

Australian bond yields traded in a relatively narrow range yesterday. The 90-day bank-bill swap rate fell 1 basis point to 0.10% while the 10-year bond yield edged up 1 basis point to 0.93%. The 3-year bond yield remains firmly on the RBA's target at 0.25%.

Foreign Exchange: The US dollar index fell 0.23 to 99.88 overnight, its first fall in five sessions. The euro rallied towards the end of the session, erasing losses and ending up slightly at US\$1.0831.

Commodity currencies generally performed well. The Australian dollar rose to US\$0.6496 this morning.

Commodities: Oil prices fell for the second consecutive session, but remain well up from their lows last week. WTI crude oil futures declined US\$0.6 per barrel to US\$23.4.

Gold prices increased to US\$1,716.1 per ounce.

COVID-19: Data from Bloomberg show that global cases rose 72k to 3.86 million overnight. The number of fatalities increased 4,339 to 268k.

Japan approved the experimental anti-viral drug remdesivir, providing further optimism on the front of the medical battle.

In Australia there were 22 new cases reported since

3pm yesterday, bringing the total to 6,896, according to the Department of Health. 97 fatalities have been recorded.

Australia: The trade surplus widened \$6.7 billion in April to a surplus of \$10.6 billion in March. It was the largest surplus on record with the series dating back to 1971. The record high surplus reflected the large distortions at play, mostly due to the impact of COVID-19 restrictions around the world.

Exports surged 15.1% in March, rebounding after being disrupted in January and February. The combination of the bushfires, cyclone activity and the shutdown of production in China over much of February resulted in sharp declines in key commodity exports earlier in the year.

Travel restrictions severely dented service exports and imports. Service exports declined 9.4% in March. It was the largest fall since October 2000, following the Sydney Olympics. Service imports declined 18.6% in March, the largest fall since records began in 1981.

Total imports declined 3.6% in March, and have declined for three consecutive months. Imports were down 8.6% in the year to March, the weakest annual pace since 2009.

It was encouraging to see some recovery in exports after weather disruptions earlier in the year and as China reopened parts of its economy. Nonetheless, the world economy is undergoing a deep contraction and trade flows are expected to be hit significantly. Both exports and imports are likely to be negatively impacted in the months ahead.

China: The Caixin purchasing managers index (PMI) for the composite and services improved in April, although both indexes remained under the 50.0 level that divides expansion from contraction. The composite PMI lifted from 46.7 in March to 47.6 in April. The services PMI rose from 43.0 to 44.4 over the same time period. Note the PMIs published separately by China's Federation of Logistics and Purchasing have revealed a recovery to pre-crisis levels above 50.0.

The trade balance recorded a US\$45.3 billion surplus, more than double the US\$19.9 billion surplus in March. Exports unexpectedly rose by 3.5% year-on-year, reflecting a faster-than-anticipated recovery in production (instead of a sign of reduced external pressures on the economy). Moreover, Chinese manufacturers were probably continuing to catch up on orders made before the pandemic struck. Once they get through the backlog, exports should more clearly reflect the

impact of the drop-off in foreign demand. Meanwhile, imports declined by 14.2% year-on-year.

Europe: German industrial output fell by 9.2% in March, the biggest decline since records began in 1991. The auto industry recorded the largest fall, with a 31.1% drop in output over the month.

United Kingdom: The Bank of England kept its main policy rate and asset purchasing parameters unchanged in its latest meeting. It issued an "illustrative scenario" instead of a forecast which predicted that the economy could shrink by 14% in 2020 as a whole, the biggest fall since the "Great Frost" of 1709. This scenario did include a 15% rebound in GDP in 2021 as lockdown measures were unwound. Two of the nine policy makers on the panel voted to increase the size of the asset purchase program.

United States: Initial claims for unemployment rose by 3.17 million in the week ending May 2, down from 3.85 million in the previous week and the fifth straight week of decreasing claims. Nevertheless, the number of weekly claims remains extremely high. Since March 21, approximately 33.5 million Americans have filed for unemployment. Surely non-farm payrolls data released for April tonight will plunge.

Separate data from the Labor Department showed that hours worked fell 3.8% in Q1, the largest decline since 2009. Non-farm productivity, which measures the hourly output of each worker, decreased at an annualised rate of 2.5%.

Credit extended to consumers slumped by US\$12 billion in March, reversing a US\$19.9 billion increase in February.

Comments from Fed officials suggested that the economic recovery was likely to be slow. Speaking on CNBC, Kashkari said that while the economic recovery was likely to be "gradual", the Fed was ready to act further if necessary to avoid the prolonged slump of the sort seen in the 1930s.

Today's key data and events:

AU Statement on Monetary Policy (11:30am)

JN Labour Cash Earnings Mar y/y exp 0.1% prev 0.7%
(10:30am)

JN H'hold Spending Mar y/y exp -6.5% prev -0.3% (10:30am)

JN Jibun PMIs Apr Final (10:30am)

US NF Payrols Apr exp -21,250k prev -701k (10:30pm)

US Unemployment Rate Apr exp 16.0% prev 4.4% (10:30pm)

US Avg Hourly Earnings Apr exp 0.4% prev 0.4% (10:30pm)

US Wholesale Trade Sales Mar exp -3.0% prev -0.8% (12am)

US Federal Reserve's Kashkari Speech (2am)

US Federal Reserve's Harker Speech (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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