

Monday, 20 April 2020

Is the Optimism Overdone?

Markets can have a tendency to move on to the next thing pretty quickly. The US S&P500 index has recovered 28.5% since its recent low was hit on March 23. It is still 15.1% lower than its peak struck in February, but it has been an impressive recovery.

In Australia, the recovery has been less pronounced. The ASX200 is up 20.4% from its recent low, also reached on March 23, but is down 24.9% from its recent peak. However, as of Friday, it ended higher for four consecutive weeks in a row, and on a rolling four-week average had its best performance since 2009. The relative outperformance in the US could relate to the resilience of tech and certain healthcare stocks in this environment, but it highlights a broad recovery underway in sentiment.

This optimistic tone is also evident in currency markets. The Australian dollar, which can be thought of as a key barometer of risk appetite, hit a low of 55.1 US cents on March 19, and has rebounded to trade at 63.5 US cents at the time of writing.

Is this optimism overdone? On the one hand, some recovery in risk appetite is justified. Central banks and governments are throwing everything they can to cushion the large economic shock from the measures aimed at curbing the spread. When panic sets in financial markets, they almost always overshoot.

There is also the news of a stabilising rate of new COVID-19 cases globally, and in key epicentres in the US and parts of Europe. There has even been talk of re-opening the economy in some major economies.

However, the range of estimates of the recession underway is wide and varied. The International Monetary Fund (IMF) last week published its forecasts and it expects global economic activity to contract by 3.0% this year, which would be the worst outcome since the Great Depression. We are only just seeing the early stages of the economic data, which is measuring the impact of COVID-19 and the containment measures, on the global economy.

Moreover, while markets may sense that an end is in sight, that end is not so clear given that any unwinding of restrictions comes with the risk of infections rising again, and that it would likely be done in stages.

In Australia last week, confidence measures painted a grim picture of how businesses and consumers are faring, with both indices recording their largest falls on record. As part of their expanded products in measuring the impact of COVID-19 on the economy, the Australian Bureau of Statistics (ABS) will be releasing a survey on Household Impacts of COVID-19 survey today and a Weekly Payroll Jobs and Wages report tomorrow. In addition to these releases, the preliminary release on retail sales for March on Wednesday will provide an early set of official statistics which will gauge the shift in consumer spending trends of when COVID-19 social distancing measures have taken place.

On Tuesday, we will also receive more insights into the RBA's thoughts and views surrounding the

economy. Along with the minutes of the April board meeting, RBA Governor Lowe will speak via Webcast and will speak on the Economic and Financial Update. The RBA Governor is also due to appear tonight on 7:30 on the ABC as part of a segment on the economy.

Janu Chan, Senior Economist

Ph: 02-8253-0898

Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

End Period:	2020				2021	
	Close (Apr 17)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.13	0.15	0.20	0.25	0.30	0.35
3 Year Swap, %	0.32	0.35	0.35	0.40	0.40	0.45
10 Year Bond, %	0.86	0.75	0.75	0.80	0.85	0.95
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.64	0.60	0.65	0.70	0.75	0.80
USD Exchange Rates:						
AUD-USD	0.6366	0.62	0.64	0.66	0.68	0.68
USD-JPY	107.54	107	105	106	107	107
EUR-USD	1.0875	1.07	1.06	1.06	1.07	1.08
GBP-USD	1.2499	1.22	1.23	1.24	1.25	1.25
NZD-USD	0.6035	0.60	0.62	0.64	0.65	0.65
AUD Exchange Rates:						
AUD-USD	0.6366	0.62	0.64	0.66	0.68	0.68
AUD-EUR	0.5853	0.58	0.60	0.62	0.64	0.63
AUD-JPY	68.45	66.3	67.2	70.0	72.8	72.8
AUD-GBP	0.5090	0.51	0.52	0.53	0.54	0.54
AUD-NZD	1.0546	1.03	1.03	1.03	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.2	-5.0
CPI (Headline), %	1.8	1.8	0.9
CPI (Trimmed mean), %	1.8	1.6	1.5
Unemployment Rate, %	5.0	5.2	7.8
Wages Growth, %	2.3	2.2	1.8

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@bankofmelbourne.com.au
(02) 8253 0898

Economist

Nelson Aston
nelson.aston@bankofmelbourne.com.au
(02) 8254 1316

The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
