

Investors continue to pin hopes on early vaccine

MARKETS



- **Local and global shares rose this week as optimism regarding a vaccine and quicker re-opening buoyed cyclical stocks** and sectors that were hardest hit in the March falls, with investors rotating out of growth / momentum stocks that performed well during March. **US stocks are now up more than 37% from their March lows with European shares up more than 32%.**
- **US social media stocks saw their share prices fall after President Trump signed an executive order which removes the liability shield these companies have enjoyed** since their creation. The move was in response to Twitter fact-checking President Trump's tweets and claims social media companies have been biased in removing right-leaning posts and anti-China posts.
- **In local stock news, Sydney Airport executives told its annual general meeting that the business had enough liquidity to sustain its operations** through an extended downturn without breaching its debt covenants.
- **National Australian Bank decided to more than double its equity raising after the retail component came in heavily oversubscribed.** The initial target from retail shareholders was for \$500m, with the bank taking in an additional \$750m. The bank had previously reported it had provided 120,000 loan deferrals and granted more than \$370m in loans to small businesses as part of the government's loan guarantee scheme.
- **The Aussie dollar rose above 66c against the US dollar this week** as the US dollar continued to weaken.

ECONOMIC



- **The Federal Government now expects the number of employees to be covered under the JobKeeper program to be 3.5 million versus an initial number of 6.5 million**, thus reducing the cost of JobKeeper to \$70bn. Good and bad. The bad is the

expected fiscal boost to the economy falls by 3%, whilst the good is that finances are significantly better.

- **The lower JobKeeper numbers does give the government some flexibility around a slower unwind of the fiscal stimulus.** If ended suddenly in September, JobKeeper payments would cease, JobSeeker payments would likely half to \$550 per fortnight, at a time when unemployment is expected to be close to 10% with underemployment much higher.
- **Credit rating agency Fitch has downgraded their outlook on Australia's AAA credit rating to negative from stable**, citing the impact to the economy and the government's balance sheet from Covid-19.
- **The volume of Australian construction work done fell by 1% in the 1st quarter, to be 6.5% lower over the year.** Residential building work fell for the 7th straight quarter, down almost 16% off its peak, non-residential building work was flat, whilst engineering work was down 1.1%.
- **RBA governor Phillip Lowe said he sees the economy as tracking a little better than the bank's baseline scenario, but that he still expects it to be a long drawn out process** to get the economy back to full employment. He also restated his clear belief that fiscal policy rather than monetary policy has the bigger role to play ahead.
- **It looks increasingly likely that President Trump and Senate Republicans will launch a fresh round of fiscal stimulus in the coming months**, likely to be smaller than the US\$3 trillion recently proposed by the Democrats in the House. The Trump administration is waiting for greater clarity on how much will be needed but wants states to re-open first as a pre-condition for any new stimulus.
- **US new home sales rose by a better than expected 0.6% in April, though significantly down on the same time last year.** Home prices lifted slightly in March, consumer confidence rose slightly in May, whilst a manufacturing index improved off a low base but remained in contractionary territory.
- **An additional 2.4 million Americans filed unemployment claims last week**, which was the lowest weekly number since lockdowns began, but brings the tally to more than 38 million claims.
- **The eurozone signed off on a \$1.24bn plan to prop up EU economies**, with the European Commission to borrow the funds from the market at extremely low rates, and then disburse two-thirds in grants (not repayable) and the rest in loans.
- **The Chinese government dropped its official target for economic growth this year for the first time in 30 years.** The shift in policy was taken as a warning that the economy will take longer than thought to recover from the virus. Almost impossible to hit a growth target when you've got no control of the virus outcomes and the Western world is still mostly in lockdown.



- **The Australian federal government has sternly rebuked the Victorian Premier's deal with China on the Belt and Road Initiative on national security grounds.** The move comes following the Victorian Premier's lack of collaboration and cooperation with federal authorities, with the Chinese recently slapping tariffs / embargoes on Australian barley and beef, with coal and wine rumoured to be next on their hit list, following our request for an inquiry into the virus.
- **With the stroke of the pen, China has effectively accelerated Hong Kong's integration into mainland China with a new security law, resulting in more civil unrest.** US President Trump has promised retaliation (by the end of the week) if Hong Kong's existing privileges are ended, whilst the US Senate is threatening sanctions on officials who implement the new law. President Trump may be forced to pull any special dispensations Hong Kong previously had with the US, including trade, if it is deemed that Hong Kong is now an "arm" of China.
- **The US commerce department has added 33 Chinese companies and other institutions to an economic blacklist** for human rights violations and to address US national security concerns.
- **On the economy re-opening front, Europe seems to be accelerating its pace of re-opening** with Spanish beaches and hotels to open to foreign tourists from July, Japan has lifted its state of emergency, whilst Italy has reopened gyms and swimming pools. Closer to home, Australians still can't travel interstate and Victorians will be working from home at least until the end of June.