

## Markets Summary – April 2020

*Taken from the CBA Global Markets Research report, 'April Month in Review', and 'CoreLogic Dwelling prices – April 2020), all first published on 1 May 2020.*

### Highlights in April

- Central banks continued the roll out of support programs
- Credit spreads tightened, but it's been a sluggish month for issuance
- The Australian dollar (AUD) outperformed against all the major currencies in April
- The Australian equity market performed very strongly, gaining 9.5%, the best performance in 32 years.
- In Australia, dwelling prices rose 0.2% across the eight capital cities in April

### Summary

April saw a significant shift for financial markets, with optimism creeping back, even if it was misplaced as economic data came in weak. Equity markets roared back to life, with some of the best gains in decades as the support programs from central banks flooded the system with liquidity.

Domestically, Reserve Bank of Australia (RBA) reached its first AUD\$50 billion of Federal and state government bond purchases, while managing to lower its buying over the month. Credit spreads narrowed abroad and locally.

New Covid-19 cases appeared to slow down in most countries which has brought about the prospect of a reopening of economies around the world.

The Australian equity market performed very strongly, gaining 9.5%, the best performance in 32 years.

The AUD rose on a trade-weighted basis by 5.7% in April. The AUD outperformed against all the major currencies in April.

### Cash

There was of course, no further move from the RBA in April to change policy rates, with the 0.25% target cash rate held. This followed the RBA's emergency meeting in March where the cash rate was lowered to 0.25% and the start of the RBA's Quantitative Easing program. The RBA also left the target yield for three-year government bond yields at 0.25%.

## Australian and Global Fixed Interest

Despite the tension in economies and financial markets, government bond yields were actually relatively little changed over April. Australian 10-year bond yields rose 14.5 basis points (bps) while the 3 year yields fell 2 bps.

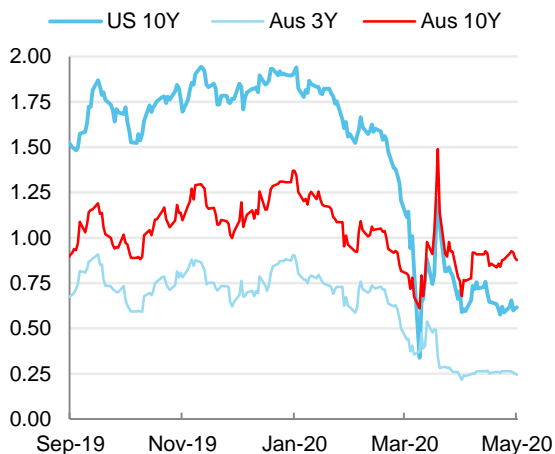
Most of the movement in the 10 year was near the start of the month as it became obvious the RBA was slowly reducing its purchases through its Quantitative Easing program. But for the last three weeks of April, Australian bond yields mostly meandered with global risk sentiment.

The 3 year yield now effectively shackled at 0.25%.

The data released in April had very little impact on markets – it mostly related to the economy before the Coronavirus-inspired shutdowns. For the record, the quarter one Consumer Price Index rose 0.3% on the quarter and 2.2% on the year. The underlying Consumer Price Index was 0.5% and 1.75% annual. The unemployment rate was 5.1%. This largely confirmed the RBA's pre-shutdown intuition that the economy was slowly improving. The RBA Governor gave a speech outlining some pessimistic expectations on 21 April, including suggesting that GDP would fall by 10% and hours worked would fall by 20%. The unemployment rate was forecast to rise to around 10% by June.

There has been huge amounts of issuance, both from Semis and the Commonwealth government this month, as Governments everywhere began the task of paying for the Coronavirus packages they'd announced.

sChart 1 – 3 year and 10 year government bonds



Source: Bloomberg, CBA

## Global Credit

April has been a sluggish month for Australian credit. There's been no issuance again in either corporates or financials other than a few covered bond deals. There's been a massive fall in credit spreads offshore following the Fed and the ECB's corporate bond programs. Australian credit spreads are lagging behind but investor sentiments have improved and we are starting to see buyers dipping their toes into selective corporate names.

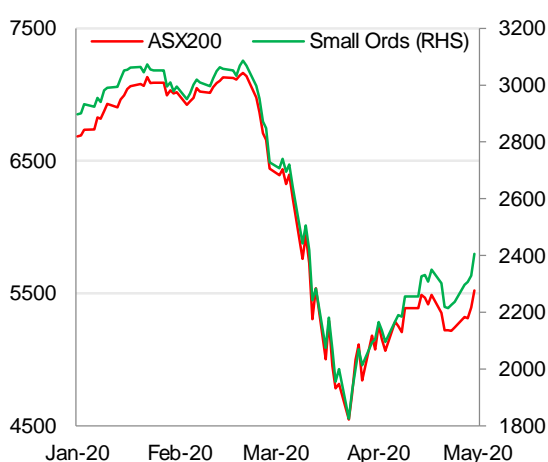
## Global Equities

Global sharemarkets rebounded in April from the lows reached on March 23. Unprecedented monetary and fiscal stimulus drove the gains, bolstering company valuations. Investors were encouraged by a decline in new virus infections, improving prospects for Gilead Sciences' remdesivir coronavirus treatment; and hopes for a reopening of economies in lockdown. US equities posted their best monthly returns since January 1987 and Aussie shares recorded the strongest gains since March 1988.

Overall in April the US Dow Jones rose by 11.1 % - its best month in 33 years. The S&P 500 lifted 12.7% its biggest one month gain since 1987 and the Nasdaq was up by 15.5% – the most since June 2000. European shares had their best month since October 2015 with the German Dax index up 9.3% and the UK FTSE index rose 4.0 %. In Asia, Japan's Nikkei index lifted 6.7% and the Aussie ASX 200 index rose by 8.8% – the most in 33 years. The broader and longer running All Ordinaries index rose 9.5%, the biggest gain in 32 years.

21 of Australia's 22 sub-industry sectors posted gains. The best performers were Energy (up 24.8%), Consumer Services (+23.0%) and Software & Services (+22.5%). But Insurance fell 1.1% and Banks rose just 0.7% after disappointing earnings results from ANZ and NAB. Of the size categories, the ASX MidCap50 index (+16.1%) was the best performer, followed by the Small Ordinaries index (+14.3%), ASX 200 index (+8.8%), ASX100 index (+8.4%) and the ASX50 index (+7.2%).

**Chart 2 - Smaller companies outperform in April rally**



## Australian Dollar

The Australian Dollar (AUD) rose on a trade-weighted basis by 5.7% in April. The AUD outperformed against all the major currencies in April.

Improving financial market sentiment, early signs of a recovery in Chinese economic activity and slower RBA bond purchases underpinned AUD. The RBA made no monetary policy changes on 7 April. But AUD rose after the RBA indicated "it is likely that smaller and less frequent purchases of government bonds will be required" at its 7 April policy meeting.

S&P downgraded the 'outlook' on Australia's AAA sovereign credit rating from 'stable' to 'negative' but the AUD did not react much. In a speech on 21 April, RBA Governor Philip Lowe said the RBA projects GDP to fall by "around 10% over the first half of 2020, with most of this decline taking place in the June quarter". The RBA also predicts the unemployment rate to lift towards 10% by June (currently 5.2%).

**Table 1 – Australian dollar April performance**

AUSTRALIAN DOLLAR			
	End Mar	End Apr	M/M %
	31-Mar-20	30-Apr-20	Change
AUD-USD	0.6131	0.6512	6.2
AUD-JPY	65.95	69.79	5.8
AUD-EUR	0.5560	0.5944	6.9
AUD-GBP	0.4939	0.5170	4.7
AUD-CHF	0.5893	0.6286	6.7
AUD-CAD	0.8621	0.9081	5.3
AUD-NZD	1.0296	1.0629	3.2
TWI	54.7	57.8	5.7
<b>Month High</b>		0.6570	30-Apr-20
<b>Month Low</b>		0.5980	3-Apr-20

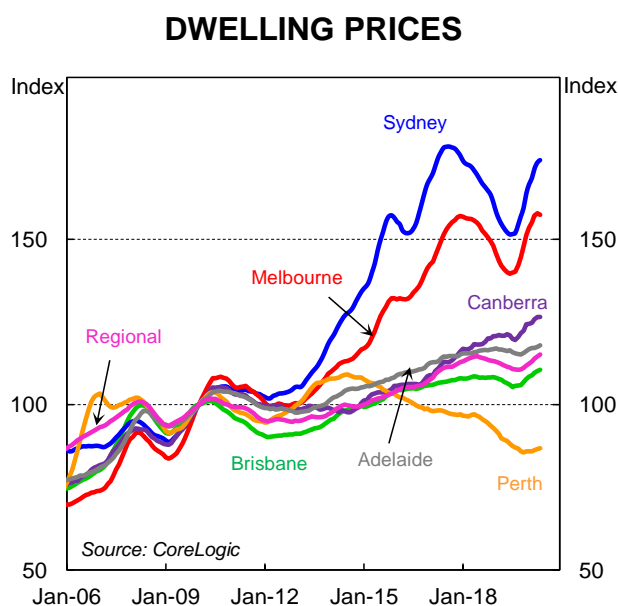
Source: Bloomberg, CBA

### **Australian Property Prices**

According to CoreLogic data national property prices were largely unaffected by the COVID-19 pandemic in April. This runs contrary to other indicators of the property market like auction clearance rates and the household perception around prices which have fallen sharply. We suspect that there are some timing issues around the CoreLogic data and actual price action. Any lags should catch up in due course and we expect the upcoming price data to fall into line with other indicators of the property market.

The 0.2% increase in dwelling prices in the eight capital cities over April marked ten straight months of price growth. Annual growth has accelerated to 9.7%. By way of comparison, in June 2019 national dwelling prices were down by 8.0%. The turnaround has been quite remarkable, though it is not expected to last. Prices in Sydney rose by 0.4% in April and have lifted by 14.8% since May 2019 (the low point in the cycle). Price rises were posted in most other capital cities in April. In Melbourne, reported dwelling prices look to have already turned and fell by 0.3% in April.

Chart 3 – Dwelling prices



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