Markets Summary – May 2020

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

Highlights in May

- A tightening in credit spreads was a dominant feature of the month.
- Government bond yields were largely unchanged in Australia.
- Credit spreads tightened and new primary deals saw strong support from both local and offshore investors.
- The Australian dollar rose 2.4% against the US dollar.
- Australian and global equities posted sharp gains once again.
- Oil and iron ore prices rose.
- In Australia, dwelling prices fell by 0.5% across the eight capital cities.

Summary

May was a month of recovery in some markets as the damage from the Coronavirus shutdown appears to be severe – but not quite as bad as first feared (at least in Australia).

The ASX 200 accumulation rose 4.36% while there were significant tightening (reduction) in corporate credit spreads. Government bond yields were little changed. Australian and global equities backed up the April returns, with another month of solid gains. The Australian dollar also backed up its gains from April, rising 2.4% against the US dollar amid a breakout of global optimism.

Cash

There was of course no further move from the RBA in May to change policy rates, with the 0.25% target cash rate held. The RBA also left the target yield for three-year government bond yields at 0.25%. **The RBA has also been largely absent from its quantitative easing program with no purchases since the 6 May** and no resumption of any purchases. The RBA currently holds close to $A60bn of Australian federal and state government bonds.

The RBA had begun QE-buying with a deliberate measure of "shock and awe" communication. The RBA appears to have (temporarily?) ceased buying and simply quietly stopped. The RBA announced that it would move to buying on only three days a week from April 21, but hasn't actually purchased anything in its buying window since May 6. The market doesn't seem to have missed it – and the RBA is very likely happy not to be missed. The RBA continues to reassure markets that it can restart the program quickly if necessary.

Australian and Global Fixed Interest

Australian government bond yields in May were relatively stable. The 3-year government bond yield is not straying far from the 0.25% target the RBA has set, but even the 10-year bonds have had relatively little movement this month. The 10-year yield had an intra-month range of 0.815% to 0.985%. They closed the month just below the centre of that range at 0.875%. That was a fall of 1bp on the month. For the record, the 3-year bond yield rose 1.5bp over the month and closed May with a yield of 0.265%.

This doesn't mean nothing happened in May, however. Markets were dealing with the second-round (and third round) effects of the Coronavirus-induced shutdown.

Global Credit

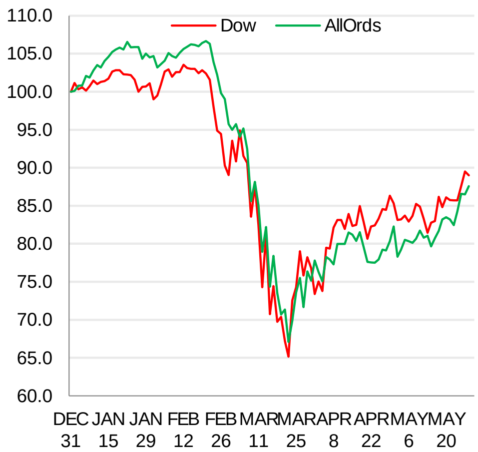
The Australian corporate bond market reopened in May. New corporate bonds were issued with strong support from both local and offshore investors. Offshore central bank support for credit markets saw the US market continue to see strong credit growth in response to the Federal Reserve's corporate bond buying programs. US investment grade issuance passed the $US1trn mark on 29 May. In a similar way to how the European central banks' corporate bond buying program triggered a sharp increase in credit growth in Europe, US corporates took advantage of the strong backdrop and swamped the market with new issuances after the Federal Reserve announced its corporate bond buying programs. Australian corporate spreads have enjoyed a decent rally in May.

Global Equities

Economies attempted during May to ease the lockdown restrictions that had been put in place to contain the COVID-19 virus. Global investors embraced this positivity with banks emerging as key winners across markets. After April recorded the largest increases in many decades, global sharemarkets made follow-up gains in May. The US Dow rose 4.3%; S&P 500 rose 4.5%; and the Nasdaq rose 6.8%. In Asia, Japan rose 8.3% with the ASX 200 up 4.2%. And in Europe, the UK rose 3.0% with the German Dax up 6.7%.

In May, 20 of Australia's 22 sub-industry sectors posted gains. The best performers were Consumer Durables and Apparel (up 27.3%), Software and Services (up 14.5%) and Media and Entertainment (up 13.5%). But Pharmaceuticals and Biotech fell 10.4% and Food and Staples Retailing fell 0.7%. Of the size categories, the Small Ordinaries index rose the most (up 10.5%), followed by the MidCap50 index (up 7.6%), the ASX 200 index (up 4.2%), ASX100 index (up 3.7%) and the ASX50 index (up 3.0%).

Chart 1 – US and Australian sharemarket



Australian Dollar

The Australian dollar rose 1.7% on a trade-weighted basis in May, and outperformed all the major currencies we monitor.

The Australian dollar began the month on the back foot, hitting its month low on 4 May. Deeper than expected falls in US and Eurozone Q1 2020 GDP raised concerns about the outlook for the global economy, supporting the US dollar and weighing on the Australian dollar.

Our dollar then largely appreciated over the remainder of the month. Many governments started to ease lockdown restrictions throughout May. Optimism that loosening restrictions will result in a fast recovery in global economic activity supported the Australian dollar, and a strong Chinese April trade surplus announced on 7 May also lifted it. Over the second half of the month, optimism that a coronavirus vaccine might soon be available supported our dollar, as did gains in the iron ore price. Further, improving global economic data, suggesting that the worst was possibly over, pushed the Australian dollar to its month high of 0.6683 on 29 May.

Table 1 – Australian dollar May performance

	AUSTRALIAN DOLLAR		
	End Apr 30-Apr-20	**End May 29-May-20**	**M/M % Change**
AUD-USD	0.6512	0.6667	2.4
AUD-JPY	69.79	71.92	3.0
AUD-EUR	0.5944	0.6007	1.1
AUD-GBP	0.5170	0.5398	4.4
AUD-CHF	0.6286	0.6413	2.0
AUD-CAD	0.9081	0.9184	1.1
AUD-NZD	1.0629	1.0748	1.1
TWI	57.8	58.8	1.7
Month High		0.6683	29-May-20
Month Low		0.6373	4-May-20

Source: Bloomberg, CBA

Commodities

Commodity prices finished mostly higher in May. Demand hopes arising from easing COVID-19 lockdowns helped boost mining and energy commodity prices. The increase in prices was modest for most commodities, although oil and iron ore were notable exceptions.

Oil prices surged last month on signs that global oversupply concerns are easing. Easing lockdown measures was a key driver because of the prospect of increased transportation. OPEC+ committed to cut around 9.7% of global supply (relative to October 2018) in May to address the build up in global oil and product stockpiles.

Iron ore prices rose last month on resilient demand in China and supply concerns in Brazil. China's commodity intensive sectors have rebounded strongly from COVID-19 lockdowns on policy support for China's infrastructure sector.

Seaborne coking coal prices finished the month where they started on subdued Indian import demand. India's nationwide lockdown measures have weighed heavily on its steel sector due to weak downstream demand. India is the largest buyer of Australia's coking coal, accounting for around 25% of Australia's coking coal exports.

Australian Property Prices

CoreLogic data showed that dwelling prices fell by 0.5% across the eight capital cities in May, the first monthly fall since June last year. The annual rate of growth is running at 13.4%.

Darwin and Melbourne posted the largest falls in May (see Table 2). This was the second fall in a row for Melbourne. Prices also fell in Perth, Sydney and Brisbane.

Prices are falling the heaviest for the most expensive homes. In Sydney and Melbourne, prices for the most expensive 25% of properties fell by 0.6% and 1.3% in May. The price for the cheapest 25% of properties rose by 0.1% in Sydney and fell by 0.3% in Melbourne.

CoreLogic estimates that housing market turnover fell over March and April, with a particularly sharp fall in April (-28.2%). There was a partial rebound in May (21.4%) as restrictions were eased on open homes and on-site auctions.

Chart 2 – Dwelling prices – month and annual change

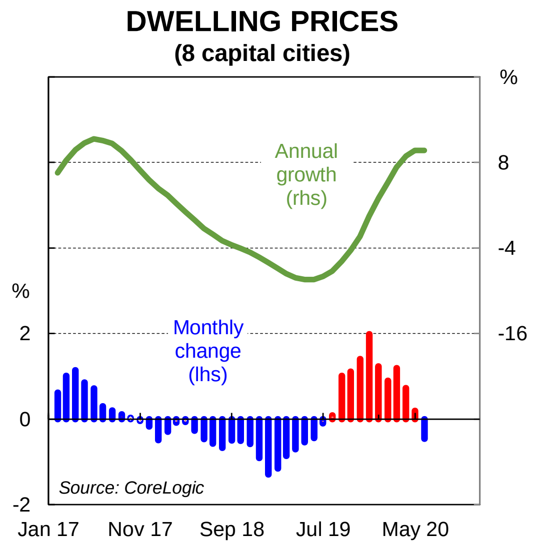


Chart 3 – sales volumes

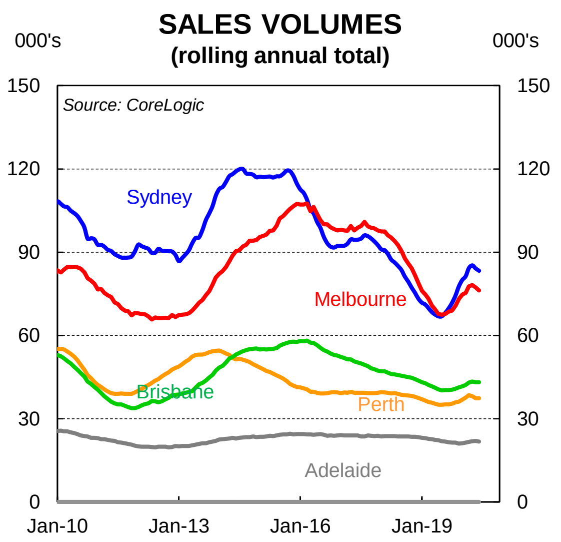


Table 2: Dwelling Prices

Table: CoreLogic Dwelling Prices									
	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra	8 Capital cities
% mth chg May 2020 (a)	-0.4	-0.9	-0.1	0.4	-0.6	0.8	-1.6	0.5	-0.5
% ann chg to May 2020 (a)	14.3	11.7	4.3	1.8	-2.1	6.2	-2.6	5.1	**9.7**