



MORNING REPORT

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Top News

Powell to Confront 'New Risk' to U.S. Economy from China Virus

Federal Reserve Chairman Jerome Powell has confessed that it's "very hard" to understand China's economy. The outbreak of the coronavirus has made that exponentially more difficult. Yet it's something that he can hardly afford to ignore when he addresses lawmakers this week. The sheer size of China's economy means that any hit to its growth from the epidemic will have a knock-on impact for the rest of the world and the U.S.

"The effects of the coronavirus in China have presented a new risk to the outlook," the U.S. central bank wrote in its semi-annual report to Congress released on Friday. Just how big of a risk it is -- and what's the likely Fed response -- probably will be front and center when Powell kicks off two days of Congressional testimony on Tuesday before the House Financial Services Committee. He speaks to the Senate Banking panel the next day.

Lawmakers will also likely press Powell for the rationale behind the big run-up in the Fed's balance sheet that's occurred since September's turmoil in the money markets. Coming on the heels of President Donald Trump's acquittal on impeachment charges last week and ahead of November elections, the hearings could well be politically contentious as lawmakers from both parties pepper Powell with questions.

"He is going to have his Kevlar on," said Ward McCarthy, chief financial economist at Jefferies LLC. "All of the questions will have some political connotations." Ahead of the hearings, traders in the federal funds futures market are betting that Powell and his colleagues will respond to the virus with a cut in interest rates later this year.

Given all the unknowns involved, Fed watchers say Powell is unlikely to be that clear about the Fed's intentions. But he's just as unlikely to dismiss the threat and rule out any response. "There's little upside to trying to sound too confident," said former Fed researcher Michael Feroli, who is now chief U.S. economist at JPMorgan Chase & Co. "At least when I was there, there weren't any virologists on the board."

"The underlying hiring trend is robust, providing a sturdy foundation for domestic growth. However, this is due to be challenged in the relatively near term by weak global growth in general and coronavirus supply-chain disruptions in particular." The uncertainties are compounded by the difficulties outside observers confront when trying to understand China's economy through the prism of what many see as doctored government statistics.

"You can read all you want, you can visit it all the time, but nonetheless it's still very hard, I think, for me anyway, to really feel like you understand how the economy works," Powell told lawmakers in November. Private sector economists have started to shave their estimates of U.S. growth due to the coronavirus. Feroli cut his first-quarter forecast to 1%, though he expects activity to bounce back in the second quarter.

(Bloomberg)

NZX Index				
Index	Last	Change		
S&P/NZX All Index	12,717.93	163.87	↑	1.31%
S&P/NZX 50 Index	11,760.89	155.99	↑	1.34%
S&P/NZX MidCap Index	32,841.72	187.74	↑	0.57%
S&P/NZX SmallCap Index	65,842.36	204.22	↑	0.31%

ASX Index				
Index	Last	Change		
ASX All Ordinaries	7,121.40	27.30	▼	0.38%
S&P/ASX 200	7,022.60	26.60	▼	0.38%
ASX Small Ordinaries	3,009.30	10.50	▼	0.35%
S&P/ASX MIDCAP 50	7,558.60	17.10	▼	0.23%
S&P/ASX 20	3,896.00	11.60	▼	0.30%

Foreign Markets Index				
	Last	Change		
S&P 500	3,327.71	18.07	▼	0.54%
Dow Jones Industrial Average	29,102.51	277.29	▼	0.94%
NASDAQ Composite	9,520.51	51.64	▼	0.54%
DAX PERFORMANCE-INDEX	13,513.81	60.99	▼	0.45%
ASX All Ordinaries	7,121.40	27.30	▼	0.38%
NIKKEI 225	23,827.98	45.62	▼	0.19%
HANG SENG INDEX	27,404.27	89.43	▼	0.33%

Currencies (per NZ\$ 1.00)				
	Last	Change		
AUD	0.9594	0.0005	▲	0.05%
USD	0.64	0.0003	▲	0.05%
CNY	4.4830	0.0010	▲	0.02%
EUR	0.59	0.0001	▲	0.02%
CAD	0.8518	-0.0001	▼	0.01%
GBP	0.50	0.0000	▲	0.00%
JPY	70.2460	-0.0350	▼	0.05%

NZ Interest Rates				
	Last	Change		
NZ OCR	1.00			
3m Bank Bill	1.25			
5y Swap	1.21			
10y Swap	1.49			

Commodities Futures (Spot Price \$USD)				
	Last	Change		
Gold	1,573.80	3.80	▲	0.24%
Silver	17.68	0.13	▼	0.75%
Crude Oil	50.34	0.61	▼	1.20%

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