

Morning Report

Thursday, 10 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,053	1.0%			Last	Overnight Chg		Australia			
US Dow Jones	33,286	2.0%	10 yr bond		97.67	-0.01		90 day BBSW	0.15	0.01	
Japan Nikkei	24,718	-0.3%	3 yr bond		98.23	-0.01		2 year bond	1.26	0.05	
China Shanghai	3,413	-1.1%	3 mth bill rate		99.85	0.00		3 year bond	1.74	0.08	
German DAX	13,848	7.9%	SPI 200		7,066.0	29		3 year swap	2.05	0.01	
UK FTSE100	7,191	3.3%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	2.32	0.09
Commodities (close & change)*			TWI		62.0	-	-	61.8	United States		
CRB Index	292.1	-17.0	AUD/USD		0.7270	0.7337	0.7264	0.7324	3-month T Bill	0.36	0.01
Gold	1,992.82	-57.9	AUD/JPY		84.08	84.99	84.04	84.82	2 year bond	1.67	0.07
Copper	10,178.75	-86.8	AUD/GBP		0.5549	0.5579	0.5544	0.5555	10 year bond	1.94	0.09
Oil (WTI futures)	109.94	-13.8	AUD/NZD		1.0681	1.0718	1.0664	1.0707	Other (10 year yields)		
Coal (thermal)	426.85	1.2	AUD/EUR		0.6665	0.6694	0.6596	0.6618	Germany	0.22	0.10
Coal (coking)	625.00	-2.5	AUD/CNH		4.5977	4.6417	4.5943	4.6310	Japan	0.17	0.01
Iron Ore	158.70	-4.6	USD Index		99.07	99.13	97.85	98.01	UK	1.53	0.08

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Risk sentiment recovered overnight as Volodymyr Zelenskyy called for direct negotiations with Vladimir Putin and reports indicated that Ukraine was seeking to discuss diplomatic solutions. Oil prices plunged as Iraq and the United Arab Emirates (UAE) flagged a potential increase to production. US and European equities surged on the news, bond yields rose, and the US dollar fell against most major currencies.

Share Markets: Equity markets surged by the largest amount since 2020 as investor sentiment was buoyed by falls in oil prices and developments around Ukraine.

The S&P 500 jumped by 2.5%, the largest single day gain since June 2020. The Nasdaq surged 3.6%, and the Dow Jones also rose 2.0%.

European equities leapt by the largest amount since March 2020. The Euro Stoxx 50 index surged 7.4% and the German Dax rose a whopping 7.9% on the day.

Interest Rates: Interest rates continued to climb. The US 10-year yield rose by 9 basis points to 1.94%, while the 2-year yield was 7 basis points higher, at 1.67%.

The Australian 10-year government bond yield (futures) advanced by 2 basis points to 2.34%. The 3-year government bond yield (futures) also rose by 2 basis points to 1.78%.

Foreign Exchange: The US dollar declined as risk

sentiment improved. The USD Index fell by more than 1%, from a high of 99.13 to a low of 97.85, before settling around 98.01.

The AUD/USD pair was higher on the day, trading between a low of 0.7264 and a high of 0.7337. It is currently trading around 0.7324 at the time of writing.

The euro also rose as risk sentiment recovered. The EUR/USD pair jumped from a low of 1.0890 to a high of 1.1095. It is currently trading at 1.1066.

The Russian ruble extended its falls, dropping by as much as 17%.

Commodities: Oil prices plunged as Iraq and the UAE signalled a willingness to increase production. Iraq's Oil Minister said that the country can increase output if OPEC+ requires it. Potential increases would be discussed at the upcoming OPEC+ meeting.

The news led to an 11.3% fall in the West Texas Intermediate (WTI) futures price, to under \$110 a barrel. This is a significant fall from earlier in the week, when oil prices hit their highest levels since 2008, briefly breaching \$130.

Other commodity prices also dropped. Gold declined from near a 19-month high to below \$2,000 an ounce. Iron ore and copper were also lower.

Australia: Consumer sentiment, as measured by Westpac and the Melbourne Institute, fell 4.2% to

96.6 in March. This is the lowest reading since September 2020. Notably, it is the first time since then that the survey has fallen below 100 – indicating that pessimists outweigh optimists.

Devastating flooding in Queensland and NSW, and the Ukraine war hit confidence in March. Inflationary pressures and the prospect of higher interest rates also remain ongoing concerns.

The deterioration in confidence was broad-based across the sub-indices, led by expectations for economic conditions for the next 12 months, which fell 6.7% in the month.

The time to buy a dwelling index fell 7.7% in March and reached its lowest level since 2008. The index is closely linked to housing affordability, which has become increasingly stretched alongside the sharp run-up in dwelling prices.

We continue to expect solid growth in spending this year. However, cost of living pressures and higher interest rates will be headwinds for consumption. The recent floods and developments in Ukraine cast additional uncertainty over the outlook.

The Reserve Bank (RBA) Governor, Philip Lowe, addressed the Australian Financial Review Business Summit yesterday. Lowe provided an update on recent developments, both domestically and overseas, and elaborated on the implications for monetary policy.

Lowe continued to stress the Board's preference for patience. However, the Governor also noted that the economy has moved closer to the point where inflation is 'sustainably' within the target range and that it was 'plausible' that the cash rate would increase in 2022. He also highlighted the risks in waiting too long to increase the cash rate.

A key consideration for the RBA will be how developments in Ukraine may slow the unwinding of, or even add to, supply-side pressures. Additionally, the evolution of labour costs remains another important factor.

We continue to expect the first rate hike to come in August.

China: Producer prices jumped by 8.8% over the year to February, beating consensus expectations of an 8.6% annual rise. While beating consensus expectations, this was the slowest annual pace in eight months. Surging commodities prices resulting from war in Ukraine are likely to re-ignite input cost inflation in future.

Meanwhile, consumer price inflation remains subdued. The consumer price index rose 0.9% over

the year to February, following an equivalent annual increase in January.

Japan: Final December quarter GDP growth was revised lower. GDP rose 1.1% over the December quarter, down from a preliminary reading of 1.3%. However, the result is an improvement on the -0.7% contraction in output in the September quarter.

Russia & Ukraine: Ihor Zhovkva, aide to the Ukrainian President, indicated that Ukraine is open to discussing the neutrality demands from Russia. However, it is seeking security guarantees in return and won't surrender any territory. Ukrainian President Zelenskyy called for direct negotiations with Russian President Putin and said that both sides need to compromise.

Ukraine's and Russia's Foreign Ministers are due to meet for talks on Thursday.

Today's key data and events:

NZ Card Spending Retail Feb prev 3.0% (8:45am)
 AU Cons. Inflation Expectations Mar prev 4.6% (11am)
 EZ ECB Policy Decision exp 0.0% prev 0.0% (11:45pm)
 US CPI Feb exp 0.8% prev 0.6% (12:30am)

Times are AEDT. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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