

Morning Report

Friday, 13 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,065	0.2%			Last	Overnight Chg		Australia		
US Dow Jones	31,834	-1.0%	10 yr bond		96.52		0.06	90 day BBSW	0.93	0.00
Japan Nikkei	26,214	0.2%	3 yr bond		96.90		-0.02	2 year bond	2.66	-0.04
China Shanghai	3,206	0.8%	3 mth bill rate		98.66		-0.04	3 year bond	2.95	-0.05
German DAX	13,829	2.2%	SPI 200		7,010.0		-35	3 year swap	3.28	-0.01
UK FTSE100	7,348	1.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.51	-0.06
Commodities (close & change)*			TWI	62.0	-	-	62.0	United States		
CRB Index	304.9	7.8	AUD/USD	0.6941	0.7054	0.6928	0.6941	3-month T Bill	0.87	-0.02
Gold	1,852.40	14.1	AUD/JPY	90.23	91.77	89.78	90.23	2 year bond	2.64	0.02
Copper	9,239.00	-5.3	AUD/GBP	0.5667	0.5692	0.5631	0.5667	10 year bond	2.92	-0.07
Oil (WTI futures)	105.71	6.0	AUD/NZD	1.1025	1.1063	1.0988	1.1025	Other (10 year yields)		
Coal (thermal)	385.85	8.4	AUD/EUR	0.6601	0.6673	0.6583	0.6601	Germany	0.99	-0.01
Coal (coking)	501.33	-2.0	AUD/CNH	4.6919	4.7472	4.6775	4.6919	Japan	0.25	0.00
Iron Ore	131.15	-0.6	USD Index	103.99	104.11	103.37	103.99	UK	1.83	-0.02

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Volatility continued to remain heightened overnight. US share markets recovered considerable losses into the close. The US dollar index made a fresh 2-year high and the US yield curve flattened.

Share Markets: US share markets were very volatile overnight. The main indices fell early in trade, but then recovered almost all losses by the close. The Dow closed down 104 points (or -0.3%) and the S&P 500 down 5 points (or -0.1%). Meanwhile, the Nasdaq rose 7 points (or 0.1%).

Interest Rates: The US yield curve flattened with the US 2-year yield rising by 2 basis points but the 10-year yield falling by 7 basis points. Interest-rate markets are currently pricing the Fed funds rate to be 51 basis points higher at the next meeting in June and 195 basis points higher by the end of this year.

The Australian 3-year government bond (futures) yield fell from 3.05% to 2.88% and the 10-year yield fell from 3.45% to 3.33%. Interest-rate markets are currently priced for the cash rate to be 34 basis points higher by the June meeting, and 247 basis points higher by year's end.

Foreign Exchange: The US dollar continued to move higher, recording a fresh 20-year high overnight of 104.11. Strong demand for the US dollar contributed to downward pressure on the AUD/USD exchange rate. AUD/USD fell to a 2-year low of

0.6928 overnight. The NZD was also under pressure versus the USD with NZD/USD also dropping to a 2-year low of 0.6218. The AUD/NZD AUD/NZD fell from an overnight high of 1.1063 to a low of 1.0988.

Commodities: Commodities were mixed overnight.

Developments with the war in Ukraine continue to disturb commodity prices. European gas prices surged more than 10% after the Russian government cut supplies to Germany in retaliation for sanctions.

Wheat futures prices also rose on the Chicago Mercantile exchange after the US Department of Agriculture (USDA) said production in Ukraine will fall by one-third compared to last year and global stockpiles are expected to dwindle to a six-year low in the coming season.

Australia: Inflation expectations, as measured by the Melbourne Institute, fell for the first time in four months in May. Consumers expect prices to rise by 5.0% over the next 12 months, compared to an annual rise of 5.2% in March. However, inflation expectations remain elevated and are near their highest level in over a decade.

Europe: Tensions in Europe remain heightened. Sweden will submit an application on Monday to join NATO, with Finland's formal decision to do so expected on Sunday.

Japan: The current account surplus widened to ¥2.6 trillion in March, the widest since February 2021.

The result follows a ¥1.7 trillion surplus in February.

New Zealand: Net migration rose to 1,177 people in March, the first positive migration flow since October. Meanwhile, February's net migration loss was revised down to -937 people, from -593 previously. The result reduces the annual net migration loss to 7,256 over the year to March.

United Kingdom: The UK economy contracted by 0.1% in March after flatlining in February. Services, which account for about 80% of gross domestic product, contracted by 0.2%, with retail sales down by 1.4% and spending on cars collapsing by more than 15%.

The economy grew by 0.8% in the first three months of 2022, but only because activity rebounded strongly in January after the lifting of restrictions imposed in late 2021 to prevent the spread of the Omicron variant of Covid-19.

In other data, industrial production slide 0.2% in March, slowing the annual rate from 2.1% in February to 0.7% in March.

There's now pressure mounting on the UK government to deliver an emergency summer mini-budget.

United States: The final producer prices data showed an increase of 0.5% in April and 11.0% year on year. The annual growth rate for core producer prices slowed to 8.8% (from 9.6% in March), supporting the idea that producer prices might have peaked in March. However, inflation in the wholesale pipeline is still elevated enough to maintain pressure on the Fed.

In the labour market, initial jobless claims edged higher to 203,000 last week, from a upwardly revised 202,000. The reading was above the consensus estimate of 193,000. Jobless claims continue to suggest a very tight labour market lies ahead.

The US Senate voted to confirm Jerome Powell for a second four-year term as the Federal Reserve chair in an overwhelmingly bipartisan 80-19 vote.

Separately, San Francisco Fed President Mary Daly said she backed raising interest rates by a half-percentage point at each of the next two meetings, saying a 75-bp bump "is not a primary consideration." She's not an FOMC voter this year.

Today's key data and events:

NZ BusinessNZ Mfg PMI Apr prev 53.8 (8:30am)
 AU RBA's Deputy Gov Bullock Panel Participation (12pm)
 EZ Industrial Production Mar exp -2.0% prev 0.7% (7pm)
 US Import Price Index Apr exp 0.6% prev 2.6% (10:30pm)
 US Export Price Index Apr exp 0.7% prev 4.5% (10:30pm)
 US UoM Cons. Sentiment May Prel. exp 64.0 prev 65.2 (12am)

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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