

Morning Report

Thursday, 14 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,479	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	34,565	1.0%	10 yr bond		96.94	0.06		90 day BBSW	0.31	0.00
Japan Nikkei	26,843	1.9%	3 yr bond		97.41	0.09		2 year bond	2.12	-0.05
China Shanghai	3,340	-0.8%	3 mth bill rate		99.24	0.00		3 year bond	2.50	-0.06
German DAX	14,076	-0.3%	SPI 200		7,471.0	17		3 year swap	2.56	-0.14
UK FTSE100	7,581	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.07	-0.01
Commodities (close & change)*			TWI	63.8	-	-	64.0	United States		
CRB Index	308.2	5.3	AUD/USD	0.7452	0.7475	0.7392	0.7454	3-month T Bill	0.74	0.01
Gold	1,977.79	11.0	AUD/JPY	93.44	93.87	93.02	93.67	2 year bond	2.35	-0.05
Copper	10,284.00	-46.0	AUD/GBP	0.5731	0.5745	0.5678	0.5683	10 year bond	2.70	-0.02
Oil (WTI futures)	104.19	3.6	AUD/NZD	1.0880	1.0977	1.0830	1.0965	Other (10 year yields)		
Coal (thermal)	316.50	3.8	AUD/EUR	0.6883	0.6899	0.6829	0.6844	Germany	0.77	-0.02
Coal (coking)	510.00	10.0	AUD/CNH	4.7524	4.7634	4.7185	4.7546	Japan	0.24	-0.01
Iron Ore	153.95	2.2	USD Index	100.33	100.52	99.83	99.85	UK	1.80	0.00

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

Main Themes: Market sentiment stabilised overnight, as investors pared back expectations of aggressive tightening by the Federal Reserve. US share markets rose, partly reversing recent losses, while bond yields dipped.

Share Markets: US share markets rallied overnight, led by the tech sector. The NASDAQ gained 2.0%, while the S&P 500 and the Dow Jones rose 1.1% and 1.0%, respectively.

The ASX 200 closed 0.3% higher yesterday and futures are pointing to a positive open this morning.

Interest Rates: US treasury yields declined as traders pared aggressive Fed rate hike expectations. The US 2-year treasury yield lost 5 basis points, while the 10-year yield eased 2 basis points. The change takes the 2-10-year yield spread to its widest level in 6 weeks, following a brief inversion early in the month.

Interest rate markets are almost fully pricing a 50 basis point hike from the Fed at its May meeting.

The Australian 3-year government bond (futures) yield fell 10 basis points to 2.59%. The 10-year (futures) yield dropped 7 basis points to 3.06%.

The first rise in the cash rate in more than a decade is fully priced for June. The hike is widely expected to be a 15 basis point move. However, markets have attached a probability of around 70% to a 40 basis point hike.

Foreign Exchange: The Aussie dollar finished broadly unchanged. The AUS/USD pair closed at 0.7454 after ranging between a high of 0.7475 and a low of 0.7392.

The US dollar softened against a basket of its G10 peers. The US dollar index fell from a high of 100.52 to a low of 99.83, before setting around 99.85.

The USD/JPY hit an almost 30-year high overnight, climbing to 126.32, before retracing to 125.70.

Commodities: Oil climbed by more than \$3 overnight to US\$104 per barrel. Iron ore and gold also firmed, while copper softened.

Australia: Consumer sentiment declined for a fifth consecutive month in April. The consumer sentiment index fell by 0.9% to 95.8 points, its lowest level since September 2020. An outcome below 100 indicates that pessimists outweigh optimists.

Cost-of-living pressures and the prospect of higher interest rates are weighing on confidence. Flooding across parts of Queensland and NSW, and the war in Ukraine – including the associated spike in petrol prices – have also dampened sentiment.

Consistent with a landscape of near-term pressures contrasted against longer-term strength, the current conditions index declined by 5.1%, to 88.8, while the expectations index increased by 1.8%, to 100.4.

Despite headwinds, the economic picture remains bright. We forecast strong growth over 2022, led by consumer spending as households return to their usual activities and reduce their savings rate from high levels. Jobs and wages growth will be supported by a strong labour market and a continued fall in the unemployment rate, to levels not seen since the 1970s.

Canada: The Bank of Canada (BOC) hiked its benchmark interest rate by 50 basis points overnight, the largest move in 22 years. The move takes the benchmark rate to 1.00%. The BOC Governor said he expects rates to return to a 'neutral' level of around 2-3%.

China: The trade surplus widened to US\$47.4bn in March, from US\$30.6bn in February. Export growth continued at a solid clip, accelerating to 14.7% over the year to March, from an annual pace of 6.2% in February. Imports declined by 0.1% over the year to March as COVID lockdowns weigh on domestic demand.

Japan: Machinery orders fell for a second consecutive month in February, plunging 9.8%. The result follows a 2.0% decline in January. In annual terms orders remain 4.3% higher.

New Zealand: The Reserve Bank of New Zealand (RBNZ) hiked the Official Cash Rate by 50 basis points yesterday, lifting the policy rate to 1.50%. The increase was larger than the 25 basis point rise expected by consensus. The RBNZ flagged its primary concern is that the current surge in inflation becomes entrenched in price-setting behaviour, spurring the 50 basis point move. Still, the RBNZ highlighted that monetary settings remain stimulatory and that further increases will be needed. However, the bank has not altered its view on the peak in the Official Cash Rate at 3.00%.

Ukraine and Russia: The US announced \$800m in new military aid for Ukraine, after Joe Biden met with Ukraine's President Zelenskyy. The commitment will provide the Ukraine army with additional military equipment, including helicopters, artillery systems and rounds, and armoured personnel carriers.

Janet Yellen, the US Secretary of Treasury, urged China to pressure Russia into ending the conflict. She warned there may be economic consequences imposed if China failed to assist.

United Kingdom: Consumer price inflation hit its fastest pace in 30 years. The consumer price index (CPI) surged 7.0% over the year to March. The result follows a 6.2% jump in the CPI over the year to

February and beat consensus expectations of a 6.7% annual rise. In monthly terms, prices increased 1.1% in March, up from an 0.8% pick-up in February.

Underlying inflation, which excludes volatile items such as food and energy, also ran hotter than expected by consensus. Core CPI jumped 5.7% in annual terms, eclipsing February's result of 5.2% and consensus expectations of a 5.3% jump.

United States: Producer price inflation surged to a record high in March. The producer price index (PPI) jumped 11.2% over the year to March, beating consensus estimates of a 10.6% annual rise. The result follows a revised annual increase of 10.3% in February and is the fourth consecutive month of double-digit annual PPI growth.

Core PPI, which excludes volatile food and energy items, also beat consensus estimates, rising 9.2% over the year to March. This is the fastest annual pace of core PPI growth on record.

Today's key data and events:

NZ BusinessNZ Mfg PMI Mar prev 53.6 (8:30am)
 AU Cons. Inflation Expectations Apr prev 4.9% (11am)
 AU Labour Force Mar (11:30am)
 Employment Change exp 25k prev 77.4k
 Participation Rate exp 66.5% prev 66.4%
 Unemployment Rate exp 4.0% prev 4.0%
 EZ ECB Policy Decision exp 0.0% prev 0.0% (9:45pm)
 US Retail Sales Mar exp 0.6% prev 0.3% (10:30pm)
 US Import Price Index Mar exp 2.3% prev 1.4% (10:30pm)
 US Export Price Index Mar exp 2.2% prev 3.0% (10:30pm)
 US Business Inventories Feb prev 1.1% (12am)
 US UoM Consumer Sentiment Apr Prel. exp 59.0 prev 59.4 (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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