

Morning Report

Monday, 16 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,075	1.9%	Last		Overnight Chg			Australia			
US Dow Jones	32,197	1.5%	10 yr bond		96.58	0.01			90 day BBSW	0.97	-0.01
Japan Nikkei	26,428	2.6%	3 yr bond		97.06	0.00			2 year bond	2.55	-0.07
China Shanghai	3,233	1.0%	3 mth bill rate		98.71	-0.02			3 year bond	2.82	-0.08
German DAX	14,028	2.1%	SPI 200		7,110.0	54			3 year swap	3.12	0.04
UK FTSE100	7,418	2.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.40	-0.02	
Commodities (close & change)*			TWI	62.0	-	-	61.8	United States			
CRB Index	308.6	4.5	AUD/USD	0.6940	0.6941	0.6855	0.6931	3-month T Bill	0.93	0.00	
Gold	1,811.79	-10.0	AUD/JPY	89.67	89.72	88.04	89.68	2 year bond	2.58	0.02	
Copper	9,185.00	80.0	AUD/GBP	0.5658	0.5670	0.5619	0.5658	10 year bond	2.92	0.07	
Oil (WTI futures)	110.49	4.4	AUD/NZD	1.1057	1.1059	1.0996	1.1037	Other (10 year yields)			
Coal (thermal)	344.75	-9.6	AUD/EUR	0.6665	0.6670	0.6604	0.6664	Germany	0.95	0.11	
Coal (coking)	500.67	0.0	AUD/CNH	4.7186	4.7188	4.6790	4.7117	Japan	0.25	0.00	
Iron Ore	126.15	-0.8	USD Index	104.85	105.01	104.47	104.56	UK	1.74	0.08	

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: Equity market risk sentiment recovered on Friday night following a volatile week. Global equity markets bounced back strongly, US bond yields rose and the US dollar declined.

Share Markets: Equity markets rallied on Friday after a volatile few weeks. The S&P 500 rebounded by 2.4%. However, despite the bounce on Friday, the index recorded a sixth straight week of losses. The Nasdaq surged by 3.8% and the Dow Jones jumped 1.5%.

The ASX 200 rose 1.9% on Friday. Futures are pointing to a positive open.

Interest Rates: The US yield curve steepened as the 10-year yield rose by more than the 2-year yield. The 10-year yield jumped 7 basis points to 2.92%, while the 2-year yield was 2 basis points higher, at 2.58%.

The 10-year Australian government bond yield (futures) fell by 1 basis point to 3.43% after trading between 3.39% and 3.45%. The 3-year government bond yield (futures) traded between 2.91% and 2.95%, before closing broadly unchanged at 2.95%.

Foreign Exchange: The US dollar pulled back following significant recent strength. The USD Index fell from a high of 105.01 to a low of 104.47, before increasing to trade at 104.56 at the time of writing.

The AUD/USD traded between a low of 0.6855 and a high of 0.6941 on Friday night. It is currently trading around 0.6931.

Commodities: Oil prices rose to be back above US\$110 per barrel. Copper was also higher. Gold was down on Friday and recorded its biggest weekly drop in almost a year. Iron ore also slipped.

Australia: There were no major economic data releases on Friday.

Eurozone: Industrial production declined in March suggesting a slowdown in manufacturing sector activity. However, the fall was not as large as expected. Production fell by 1.8% in the month, which was not as weak as consensus expectations of a 2.0% drop. In annual terms, industrial production declined by 0.8% over the year to March, also better than consensus expectations of a 1.0% fall. The annual fall in March follows a revised annual increase of 1.7% over the year to February.

New Zealand: Manufacturing activity continued to lose steam in April. However, the result remains above the thresholds of 50, which indicates expansion. The BusinessNZ manufacturing purchasing managers' index (PMI) fell to 51.2 in April, from a revised 53.8 in March. This is the lowest reading since August last year.

United States: Inflation concerns among households led to consumer sentiment falling to its lowest level since 2011. The preliminary estimate of the University of Michigan consumer sentiment survey dropped to 59.1 in May, following an outcome of 65.2 in April. The outcome was weaker than the 64.0 expected by consensus. Buying plans

for durable goods declined to a record low as high prices impact spending.

The current conditions sub-component fell to 63.6, from 69.4 in April. Future expectations were also sharply weaker, at 56.3 in May versus 62.5 in April. Inflation expectations remained elevated, as consumers expect prices to increase by 5.4% over the coming year. This is the third consecutive month that inflation expectations have remained around a four-decade high. Longer term inflation expectations were unchanged at 3.0% for the 5-10 year ahead measures.

Inflation is also impacting the prices of imported and exported goods. Import prices rose by 0.0% in April, to be 12.0% higher over the year. This follows an annual outcome of 13.0% over the year to March and was below consensus expectations of 12.3%.

Export prices gained 0.6% in April, to be 18.0% higher over the year. This was also down from the previous reading of 18.6% and below consensus expectations of a 19.2% gain. The decline in the pace of annual growth contributes to evidence that inflationary pressures may have peaked.

Today's key data and events:

UK Rightmove House Prices May prev 1.6% (9:01am)
CH Retail Sales Apr y/y exp -6.2% prev -3.5% (12pm)
CH Industrial Production Apr exp 0.5% prev 5.0% (12pm)
EZ Trade Balance Mar prev -€9.4bn (7pm)
US NY Empire Mfg May exp 15.0 prev 24.6 (10:30pm)
US Total Net TIC flows Mar prev \$162.6bn (6am)

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.

Jarek Kowcza, Senior Economist

Ph: 0481 476 436

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist

Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist

Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Associate Economist

Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
