

Morning Report

Monday, 17 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,394	-1.1%	Last		Overnight Chg			Australia			
US Dow Jones	35,912	-0.6%	10 yr bond		98.09	-0.03			90 day BBSW	0.07	0.01
Japan Nikkei	28,124	-1.3%	3 yr bond		98.69	-0.03			2 year bond	0.72	0.02
China Shanghai	3,690	-1.0%	3 mth bill rate		99.83	0.00			3 year bond	1.21	0.04
German DAX	15,883	-0.9%	SPI 200		7,330.0	28			3 year swap	1.42	0.06
UK FTSE100	7,543	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.85	-0.01	
Commodities (close & change)*			TWI		61.2	-	-	61.0	United States		
CRB Index	245.4	2.5	AUD/USD		0.7277	0.7294	0.7198	0.7212	3-month T Bill	0.11	-0.01
Gold	1,817.94	-4.6	AUD/JPY		83.06	83.17	82.09	82.32	2 year bond	0.97	0.07
Copper	9,730.75	-241.8	AUD/GBP		0.5311	0.5314	0.5268	0.5273	10 year bond	1.78	0.08
Oil (WTI futures)	83.82	1.7	AUD/NZD		1.0607	1.0617	1.0585	1.0590	Other (10 year yields)		
Coal (thermal)	185.50	11.3	AUD/EUR		0.6354	0.6360	0.6310	0.6318	Germany	-0.05	0.04
Coal (coking)	394.00	-1.0	AUD/CNH		4.6308	4.6360	4.5769	4.5820	Japan	0.14	0.01
Iron Ore	125.90	-0.8	USD Index		94.89	95.27	94.63	95.17	UK	1.15	0.04

Data as at 8:30am AEDT. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US bond yields rose on Omicron concerns and comments from Federal Reserve officials reinforcing that rate hikes will commence soon. US equities were mixed and the US dollar strengthened.

Share Markets: The S&P 500 finished up 0.1% and the Nasdaq rose 0.6%, while the Dow declined 0.6%. The ASX 200 fell 1.1%.

Interest Rates: US 2-year Treasury yields jumped 7 basis points to 0.97%, while 10-year Treasury yields leapt 8 basis points to 1.78%.

Markets are fully priced for the first Fed funds rate hike in April 2022.

Australian 3-year (futures) yields rose 2 basis points to 1.31%, while 10-year futures yields were up 3 basis points to 1.92%.

Markets are fully priced for the first cash rate hike in July 2022, according to interbank cash rate futures.

Foreign Exchange: The AUD/USD touched a high of 0.7294 before declining to 0.7212, remaining well within its trading range from recent weeks. The US dollar strengthened.

Commodities: Oil rose while gold and iron ore slipped.

Australia: Housing lending, excluding refinancing, rose 6.3% in November, following three months of Delta related declines. The increase was led by lending to owner-occupiers, which rose 7.6% in

November. This was the first increase in six months.

NSW and Victoria experienced the strongest owner occupier lending growth amongst the states, rising 9.6% and 9.7% in November, respectively.

The number of lending approvals for first home buyers also rose for the first time since January 2021, despite ongoing affordability constraints. Meanwhile, new lending to investors reached a new record high, climbing 3.8% in the month.

As Omicron surges, many have self-selected to limit their movements or have entered mandatory isolation due to skyrocketing case numbers. This adds to uncertainty regarding demand for housing credit over the start of 2022.

China: The trade surplus widened to US\$94.5bn in December, from US\$71.7 in November. This took the annual trade surplus to \$676.4 billion, its largest on record, despite ongoing trade tensions. Imports grew 19.5% in the year to December, while exports increased by 20.9% over the same period. Exports reached a record high in December, consistent with the strong global demand for Chinese goods throughout 2021.

Eurozone: The trade balance fell to a €1.3bn deficit in November, from a €2.4bn surplus in October.

United Kingdom: UK data surprised to the upside across the board. GDP rose 0.9% in November, beating consensus forecasts of a 0.4% increase, and surpassing its pre-pandemic level for the first time.

A surge in early Christmas shopping contributed to the boost which came ahead of the rapid spread of the Omicron variant.

Industrial production rose 1.0% in November, following a 0.6% contraction in October, while the index of services rose 0.7% in the month.

United States: Federal Reserve member Williams said the Fed is approaching a decision to begin raising interest rates, noting “the next step in reducing monetary accommodation to the economy will be to gradually bring the target range for the federal funds rate from its current very-low level back to more normal levels”.

Meanwhile, San Francisco President Daly said the Fed will “have to adjust policy” because there aren’t a lot of signs that high inflation will remedy itself.

Some Fed officials have gone even further, discussing the need for rate liftoff in March and hike four times in 2022. In December, the Fed dot plot showed that US central bankers were forecasting three rate hikes in 2022.

December retail sales were much weaker than expected, falling 1.9% in the month. This marks the largest fall since February 2021. Excluding the volatile groups of energy and food, sales fell 3.1% in December. There was a wide dispersion of forecasts, reflecting uncertainty over consumer reactions to inflation and supply chain concerns.

Industrial production disappointed expectations, falling 0.1% in December after a 0.7% increase in November. Omicron is exacerbating longstanding staffing and logistics challenges.

The University of Michigan consumer sentiment index fell in January to 68.8, from 70.6 in December, with inflation cited as a growing concern, as inflation expectations swell. Both current conditions and expectations were soft. 1-year ahead inflation expectations rose to 4.9% from 4.8% while 5-10-year ahead expectations rose to 3.1% from 2.9%, the highest level since 2011.

Business inventories rose 1.3% in November, following a 1.2% increase in October.

Import prices fell 0.2% in December, the first decline since August, alongside a fall in the cost of petroleum products. Over the year, import prices were up 10.4%. Export prices fell 1.8% in December but were 14.7% higher in annual terms.

Today’s key data and events:

UK Rightmove House Prices Jan prev -0.7% (11:01am)

CH GDP Q4 y/y exp 3.5% prev 4.9% (1pm)

CH Industrial Production Dec exp 3.7% prev 3.8% (1pm)

CH Retail Sales Dec exp 3.8% prev 3.9% (1pm)

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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