

Morning Report

Tuesday, 19 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,523	closed			Last	Overnight Chg		Australia		
US Dow Jones	34,412	-0.1%	10 yr bond	96.92			closed	90 day BBSW	0.33	closed
Japan Nikkei	26,800	-1.1%	3 yr bond	97.41			closed	2 year bond	2.03	closed
China Shanghai	3,349	-0.5%	3 mth bill rate	99.19			closed	3 year bond	2.37	closed
German DAX	14,164	closed	SPI 200	7,506.0			closed	3 year swap	2.63	closed
UK FTSE100	7,616	closed	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.97	closed
Commodities (close & change)*			TWI	64.0	-	-	63.9	United States		
CRB Index	315.9	4.0	AUD/USD	0.7454	0.7404	0.7343	0.7346	3-month T Bill	0.75	-0.01
Gold	1,973.71	-4.1	AUD/JPY	93.67	93.72	93.08	93.29	2 year bond	2.45	-0.01
Copper	10,303.50	closed	AUD/GBP	0.5683	0.5669	0.5639	0.5645	10 year bond	2.85	0.03
Oil (WTI futures)	108.21	1.3	AUD/NZD	1.0965	1.0951	1.0895	1.0919	Other (10 year yields)		
Coal (thermal)	314.10	closed	AUD/EUR	0.6844	0.6847	0.6812	0.6815	Germany	0.84	closed
Coal (coking)	513.33	closed	AUD/CNH	4.7546	4.7243	4.6848	4.6869	Japan	0.25	0.00
Iron Ore	154.75	-0.1	USD Index	99.85	100.9	100.5	100.80	UK	1.89	closed

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

Main Themes: Trading volumes were thin overnight with some markets still closed.

US share markets closed lower and the US dollar appreciated after the St. Louis Federal Reserve Governor said the Fed needs to move quickly to raise interest rates to around 3.5% this year with multiple half-point hikes and increases of 75 basis points shouldn't be ruled out. The World Bank also revised down its global growth forecasts this year.

Share Markets: US share markets closed lower due to the prospects for faster policy tightening by the US Federal Reserve. Volumes were low following a long holiday weekend. Compared to Thursday's close, the Dow index closed down 40 points (or -0.1%) and the Nasdaq slid 19 points (or -0.1%). The S&P 500 index was little changed, easing just 1 point. However, the closing level for the S&P 500 represents a fresh one-month low.

Interest Rates: US bond yields were mixed overnight. The US 2-year bond yield fell 1 basis point, despite hawkish remarks from the St. Louis Federal Reserve Governor. The US 10-year bond yield lifted 3 basis points to its highest since December 2018, causing the yield curve to steepen.

Interest-rate markets remain almost fully priced for a 50 basis point hike from the Fed when they meet again next month.

With rising risks that the Fed will move by 50 basis

points next month and after the Reserve Bank of New Zealand hiked last week by 50 basis points, there is a growing risk the Reserve Bank of Australia (RBA) will start its rate-hike cycle with more than a 15-basis-point tap. A 15-basis-point hike is the consensus among economists for the first RBA hike.

Foreign Exchange: The USD index strengthened overnight, rising against every G10 currency. The AUD/USD weakened further, falling from an overnight high of 0.7404 to an overnight low of 0.7380. The prospect of faster and more aggressive tightening in the US compared to Australia is weighing on demand for the AUD relative to the USD. Since hitting 0.7661 on April 5, the AUD/USD has been under selling pressures.

Commodities: There are concerns Libyan oil output disruptions might continue, pushing up the world price of oil. Output in Libya has fallen by more than half a million barrels a day and could fall further due to protests against Prime Minister Abdul Hamid Dbeibah. The West Texas Intermediate futures price for oil rose to a 2-week high of US\$109.81 a barrel, before it closed at US\$108.21 a barrel – up US\$1.26 a barrel on Thursday's close.

In agricultural news, farmers are becoming more vulnerable to soaring fertiliser costs. The International Rice Research Institute has forecast yields of rice may drop 10% in the next season, a loss of 36 million tonnes; it's the equivalent of

feeding half a billion people. The impact is expected to be more severe if the war in Ukraine continues. Overnight, corn hit US\$8 a bushel on the Chicago Mercantile Exchange for the first time since 2012. Wheat also rose overnight.

Australia: There were no major economic data releases yesterday with the national public holiday for Easter.

China: There was a large batch of economic data published yesterday. It included GDP, retail sales and industrial production.

GDP rose by 1.6% in Q1, slower than the 1.6% pace recorded in Q4 of 2021, but better than consensus expectations of 1.3%. On a year ago, GDP grew by 4.8% in Q1, up from 4.2% in Q4 of 2021. Growth has remained pretty resilient, despite covid restrictions and supply-chain disruptions. There are downside risks to growth over the next few months with Shanghai - the financial, trade and manufacturing hub of China – now in lockdown due to covid-19. China's tech hub - Shenzhen in South China's Guangdong Province – is also currently under strict anti-epidemic measures

Industrial production year-to-date in March expanded by 6.5%, from a pace of 7.5% in February. Again, this data beat consensus expectations (of 6.2%). However, the trend in industrial production represents the broader slowdown underway in China. Industrial production has slowed every month since February of last year when it was growing at a rate of 35.1%.

Retail spending in March fell by more than expected, down 3.5% year-on-year compared to expectations for a smaller fall of 3.0%. It is the first fall since August of 2020.

The People's Bank of China (PBoC) announced 23 measures aimed at supporting individuals and small businesses amid economic headwinds from Covid lockdowns. These programs are expected to boost bank lending by 1 trillion yuan (US\$157 billion). The measures include more credit for people with "flexible employment" like taxi drivers and online sellers, and longer-term, cheaper loans to SMEs.

United States: US Federal Reserve Bank of St. Louis President James Bullard said the central bank needs to move quickly to raise interest rates to around 3.5% this year with multiple half-point hikes and that it shouldn't rule out rate increases of 75 basis points. He added that increases of 75 basis points were not his "base case at this point".

Bullard views prices as being "far too high for comfort" and that a neutral fed funds rate needs to

be reached "very soon."

The NAHB housing market index fell to 77 in April, from 79 in March. The outcome was also slightly below consensus expectations. It is the fourth consecutive monthly decline in the index, despite low inventories. A sharp jump in mortgage rates and persistent supply-chain disruptions are weighing on confidence in the US housing market.

World: The World Bank cut its 2022 growth outlook on Russia's invasion of Ukraine. Growth is expected to slow this year to 3.2%, down from its previous prediction of 4.1% (made in January 2022). Slower growth in Europe and Central Asia is expected to weigh down on world growth.

Today's key data and events:

AU RBA Board Meeting Minutes (11:30am)

JN Industrial Production Feb Final prev 0.1% (2:30pm)

US Housing Starts Mar exp -1.4% prev 6.8% (10:30pm)

US Building Permits Mar exp -1.4% prev -1.6% (10:30pm)

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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