

Morning Report

Wednesday, 20 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,565	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	34,911	1.5%	10 yr bond		96.84	-0.05		90 day BBSW	0.36	0.03
Japan Nikkei	26,985	0.7%	3 yr bond		97.29	-0.06		2 year bond	2.13	0.10
China Shanghai	3,348	0.0%	3 mth bill rate		99.17	-0.02		3 year bond	2.47	0.10
German DAX	14,153	-0.1%	SPI 200		7,584.0	50		3 year swap	2.72	0.09
UK FTSE100	7,601	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.07	0.10
Commodities (close & change)*			TWI	63.9	-	-	63.6	United States		
CRB Index	306.9	-9.0	AUD/USD	0.7346	0.7400	0.7345	0.7376	3-month T Bill	0.78	-0.03
Gold	1,950.09	-23.6	AUD/JPY	93.29	95.14	93.40	95.07	2 year bond	2.59	0.14
Copper	10,288.50	-15.0	AUD/GBP	0.5645	0.5683	0.5649	0.5675	10 year bond	2.94	0.08
Oil (WTI futures)	102.63	-5.6	AUD/NZD	1.0919	1.0967	1.0919	1.0956	Other (10 year yields)		
Coal (thermal)	325.25	11.2	AUD/EUR	0.6815	0.6852	0.6813	0.6838	Germany	0.91	0.07
Coal (coking)	510.00	-3.3	AUD/CNH	4.6869	4.7400	4.6893	4.7354	Japan	0.25	0.00
Iron Ore	151.50	0.7	USD Index	100.80	101.03	100.70	100.97	UK	1.97	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: A solid start to the US reporting season pushed US equity markets higher. However, investors remain cautious of the prospect of aggressive tightening from the Fed. Expectations of higher interest rates pushed US 2- and 10-year treasury yields to 3-year highs. Oil tumbled on growth concerns, as the International Monetary Fund (IMF) slashed its 2022 forecast for global growth.

Share Markets: US share markets gained alongside a solid start to the corporate reporting season. The NASDAQ lifted 2.2%, while the S&P 500 and the Dow Jones gained 1.6% and 1.5%, respectively.

The ASX 200 closed 0.6% higher yesterday and within one percent of its all-time high. Futures are pointing to a strong open this morning.

Interest Rates: US treasury yields jumped on the prospect of aggressive tightening from the Fed. The US 2-year treasury yield spiked 14 basis points to 2.59%, a three year high. The 10-year treasury yield picked up 8 basis points to 2.94% - its highest level since November 2018.

Interest rate markets are fully pricing a 50 basis point hike from the Fed in May.

The Australian 3-year government bond (futures) yield rose from a low of 2.65% to a high of 2.72%, while the 10-year (futures) yield increased from 3.11% to 3.18%.

A 15 basis point rate hike from the Reserve Bank (RBA) is fully priced for June. There is a probability of 78% attached to a 40 basis point move. This is up from 52% before the RBA's April meeting.

Foreign Exchange: The Aussie dollar rose from a low of 0.7345 to a high of 0.7400, before settling around 0.7376.

The US dollar strengthened against a basket of its G-10 peers. The DXY index traded from a low of 100.70 to a high of 101.03 and has since consolidated around 100.97.

Commodities: Oil slumped on concerns of slowing global growth. The West Texas Intermediate (WTI) futures price sank 5.2% to US\$102.63 per barrel, the largest percentage daily fall in almost two weeks.

Gold and copper also softened, while iron ore firmed.

Australia: The minutes from the RBA's April board meeting were released yesterday and provided some colour on the RBA's recent shift in rhetoric. Recall that the RBA's most recent monetary policy decision featured several key changes in language, this included dropping the word "patient" from the statement.

The meeting minutes reveal that the Board is increasingly focused on global inflationary pressures and the decisions of other central banks in

considering its own policy settings. This is important given growing speculation of a 50 basis point rate hike in the US in May and a 50 basis point move from the Reserve Bank of New Zealand last week.

The RBA noted that a pick up in actual and expected inflation outcomes and a gradual rise in wages growth has brought forward the likely timing of the first increase in the cash rate. However, wages growth is not yet consistent with inflation sustainably within the target band. The minutes highlighted “important additional evidence” on inflation and the evolution of labour costs “over the coming months”, setting the foundations for a rate hike in June.

We expect that fresh inflation data to be released next week and an update on wages growth scheduled for May will prompt the RBA to begin raising rates at the June meeting.

Japan: Industrial production was finalised at 2.0% in February, up from a preliminary reading of 0.1%. The result follows a 2.4% decline in industrial production in January.

Russia & Ukraine: Russian troops continue attempts to establish control in the besieged city of Mariupol, while forces also clashed in the Donbas region.

Germany has enlisted defence contractors to boost deliveries of weapons to Ukraine. Chancellor Scholz also pledged his assistance in securing €50 billion in defence funding for Ukraine.

Russian foreign minister Sergei Lavrov said the Kremlin is committed to avoiding nuclear war. However, he avoided a direct answer to questions on the subject.

United States: Charles Evans, head of the Chicago Fed branch, suggested the Fed will likely raise rates above neutral and into contractionary territory. Evans expects the target rate to hit 2.50% by the end of the year.

Housing starts beat expectations in March, edging up 0.3%. Consensus was expecting a 1.6% drop in the month. Meanwhile, February’s strong result was revised down from 6.8% to 6.5%.

Building permits were also stronger than expected. Permits lifted 0.4% in March, following a revised 1.6% decline in February. The market was expecting a 2.4% decline in building permits.

World: The IMF joined the World Bank in cutting its global growth forecasts. The IMF cut its forecast for world growth in 2022 from 4.4% to 3.6% and warned of a rising risk of aggressive central bank

tightening to combat inflation. The IMF sees prices rising 5.7% across advanced economies and 8.7% in developing economies this year.

Today’s key data and events:

AU WBC Leading Index Mar prev -0.15% (10:30am)
 EZ Industrial Production Feb exp 0.7% prev 0.0% (7pm)
 EZ Trade Balance Feb prev -€7.7b (7pm)
 US Existing Home Sales Mar exp -4.0% prev -7.2% (12am)
 US Federal Reserve’s Beige book (4am)

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.

Jameson Coombs, Associate Economist

Ph: 0401 102 789

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

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