

Morning Report

Thursday, 20 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,332	-1.0%			Last	Overnight Chg		Australia		
US Dow Jones	35,029	-1.0%	10 yr bond	98.00		0.03		90 day BBSW	0.07	0.00
Japan Nikkei	27,467	-2.8%	3 yr bond	98.61		0.03		2 year bond	0.87	0.03
China Shanghai	3,729	-0.3%	3 mth bill rate	99.83		0.02		3 year bond	1.35	0.04
German DAX	15,810	0.2%	SPI 200	7,235.0		10		3 year swap	1.49	-0.02
UK FTSE100	7,590	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.00	0.05
Commodities (close & change)*			TWI	60.4	-	-	60.4	United States		
CRB Index	249.9	2.9	AUD/USD	0.7181	0.7238	0.7177	0.7213	3-month T Bill	0.16	0.00
Gold	1,840.82	27.1	AUD/JPY	82.31	82.80	82.08	82.44	2 year bond	1.04	0.00
Copper	9,691.50	-60.5	AUD/GBP	0.5284	0.5307	0.5280	0.5298	10 year bond	1.85	-0.02
Oil (WTI futures)	86.49	1.1	AUD/NZD	1.0611	1.0640	1.0585	1.0631	Other (10 year yields)		
Coal (thermal)	180.45	-1.4	AUD/EUR	0.6342	0.6382	0.6334	0.6358	Germany	-0.01	0.01
Coal (coking)	402.33	3.3	AUD/CNH	4.5674	4.5958	4.5635	4.5807	Japan	0.14	0.00
Iron Ore	131.25	0.7	USD Index	95.78	95.80	95.50	95.56	UK	1.26	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 stocks finished lower in choppy trade while US bond yields declined. Investors weighed company earnings against the prospect of an accelerated tightening in monetary policy. The WTI crude oil price hit a seven-year high.

Share Markets: US stocks finished lower after a volatile session. The Dow closed down 1.0%, the S&P 500 slipped 1.0% and the Nasdaq fell 1.2%. The ASX 200 declined 1.0%.

Interest Rates: Germany's 10-year bond yield popped above zero for the first time since 2019, although retreated over the session to finish in negative territory. Global bond yields have trended upwards over recent weeks as investors worry central banks will need to withdraw support quickly to tame inflation.

Meanwhile, US 2-year treasury yields were unchanged over the session, at 1.04%, while the 10-year treasury yield slipped 2 basis points to 1.85%.

Australian 3-year and 10-year (futures) yields declined 3 basis points to 1.40% and 2.00% respectively.

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

Foreign Exchange: The AUD/USD stuck to a narrow range, rising modestly from 0.7181 to 0.7222. The US dollar was weaker.

Commodities: WTI crude oil hit a seven-year high after the International Energy Agency said the market was tighter than previously thought. Demand for oil has proved resilient to omicron while inventories are low and OPEC+ is struggling to lift output.

COVID-19: The NSW and Victorian state governments announced people will be able to access the booster jab three months after their second dose from Friday at state-run clinics (currently four months).

The interval for jabs at GPs and pharmacies, managed by the federal government, will remain at four months until 31 January, when it will also reduce to three.

Australia: Consumer sentiment, as measured by the Westpac Melbourne Institute survey, fell 2.0% to 102.2 in January. It's the second consecutive monthly decline, after a 1.0% fall in December. The index is now at its lowest level since September 2020.

Sentiment under this measure was surprisingly strong considering the widespread disruption caused by the spread of Omicron. However, the Omicron wave is likely to lead to a pullback in retail spending and activity this month.

The index unusually revealed that surging COVID-19 cases might have weighed more heavily in states which experienced lower infections. Notably,

sentiment in NSW and Victoria improved in January, whereas sentiment fell in Queensland, SA and WA.

There is still considerable uncertainty over the magnitude of the hit to the economy from the Omicron variant. Much will hinge on the path of the virus. However, the resilience of consumer sentiment is an encouraging sign for spending.

New Zealand: Retail card spending increased 0.4% in December. This follows a 9.5% rise in November alongside the easing of COVID-19 restrictions and Black Friday sales.

United Kingdom: December inflation data surprised to the upside. Headline inflation printed 0.5% in the month and 5.4% over the year, marking the strongest inflation in 30 years. Consensus forecasts projected 0.3% and 5.2% growth respectively. Core inflation rose 4.2% over the year. The rise was driven mostly by goods prices, and in particular household goods and clothing.

Inflation is set to rise further with energy bills due to rise dramatically in April. Reports suggest regulated prices could rise more than 50% in the month. Markets expect the Bank of England to hike its policy rate further in the coming months.

United States: US housing starts rose 1.4% in December to a nine-month high of 1.70 million. Building permits jumped 9.1% in December to an 11-month high of 1.87 million. House prices have surged over the past year alongside low mortgage rates. At the same time, supply bottlenecks and labour shortages have drawn out construction timelines.

Today's key data and events:

AU Cons. Inflation Exp. Jan prev 4.8% (11am)
AU Labour Force Dec (11:30am)
Employment Change exp 30.0k prev 366.1k
Unemployment Rate exp 4.6% prev 4.6%
Participation Rate 66.2% prev 66.1%
EZ CPI Dec Final y/y exp 5.0% prev 4.9% (9pm)
US Philadelphia Fed Index Jan exp 19.0 prev 15.4 (12:30am)
US Existing Home Sales Dec exp -0.4% prev 1.9% (2am)

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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