

Morning Report

Friday, 21 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,342	0.1%			Last	Overnight Chg		Australia		
US Dow Jones	34,715	-0.9%	10 yr bond	98.02		0.03		90 day BBSW	0.07	0.00
Japan Nikkei	27,773	1.1%	3 yr bond	98.58		0.03		2 year bond	0.87	-0.03
China Shanghai	3,726	-0.1%	3 mth bill rate	99.82		0.00		3 year bond	1.35	-0.04
German DAX	15,912	0.6%	SPI 200	7,179.0		-66		3 year swap	1.53	0.01
UK FTSE100	7,585	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.95	-0.04
Commodities (close & change)*			TWI	60.4	-	-	60.8	United States		
CRB Index	250.0	0.1	AUD/USD	0.7213	0.7277	0.7208	0.7227	3-month T Bill	0.16	-0.01
Gold	1,839.42	-1.1	AUD/JPY	82.44	82.97	82.41	82.49	2 year bond	1.02	-0.03
Copper	10,014.00	152.8	AUD/GBP	0.5298	0.5330	0.5296	0.5315	10 year bond	1.80	-0.06
Oil (WTI futures)	86.90	-0.1	AUD/NZD	1.0631	1.0705	1.0625	1.0697	Other (10 year yields)		
Coal (thermal)	187.40	-9.8	AUD/EUR	0.6358	0.6415	0.6354	0.6390	Germany	-0.02	-0.01
Coal (coking)	406.00	3.7	AUD/CNH	4.5807	4.6143	4.5788	4.5882	Japan	0.15	0.00
Iron Ore	137.05	3.2	USD Index	95.56	95.86	95.42	95.83	UK	1.23	-0.03

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 share markets failed to sustain a rebound overnight and US bond yields fell across the yield curve. Meanwhile, the strong jobs data in Australia yesterday continued to spur demand for the Australian dollar overnight.

Share Markets: US share markets dropped for a third straight session. Tech shares led share markets lower. At the close, the Dow fell 313 points (or -0.9%), the S&P 500 index fell 50 points (or -1.1%) and the Nasdaq sunk 186 points (or -1.3%).

Yesterday, the ASX 200 added just 10 points (or +0.1%).

Interest Rates: US bond yields fell across the yield curve. The US 2-year yield dropped 3 basis points and the US 10-year yield fell 6 basis points. Interest-rate markets are fully pricing the first Fed funds rate hike for March 2022.

The Australian 3-year government bond yield (futures) ranged between 1.42% and 1.44%, while the 10-year yield fell from 2.02% to 1.99%. Interest-rate markets are fully pricing the first RBA rate hike to be in June 2022 with a probability of 105% attached to a move.

Foreign Exchange: An outperformer overnight was the AUD. The strong jobs data in Australia pushed the AUD/USD higher, from around 0.7220 before the data to nearly 0.7260 after the data. Overnight trading took the AUD/USD up to a high of 0.7277.

Commodities: Oil prices eased off their highest level since 2014 after US crude stockpiles rose last week. There were also renewed pledges from US President Joe Biden to curb prices by accelerating the release of US strategic reserves.

COVID-19: Western Australia delayed its February 5 reopening on concerns an Omicron wave could cause "a flood of disease." A review of the border controls will be considered over the course of next month.

Australia: The labour market continued to rebound from the Delta lockdowns in December, before Omicron disruptions took hold. Jobs jumped 64.8k in December, following a record addition of 366.1k jobs in November. It puts the number of people employed in Australia at an all-time high.

The unemployment rate fell 0.4 percentage points to 4.2% – the lowest level since August 2008. The unemployment rate is set to drop under 4% later this year, a level it has not sustained since the 1970s. This will add to mounting wage pressures.

Hours worked lifted 1.0% in December to hit a new record nationally.

NSW and Victoria continued to drive the gains in employment, as the states recovered from the lifting of lockdowns in October.

Consumer inflation expectations pulled back in January, although remained elevated. The

Melbourne Institute's inflation expectations gauge eased to 4.4%, down from 4.8% in December.

Eurozone: Consumer prices increased 5.0% over the year to December, according to final figures released overnight. This result is up from a preliminary read of 4.9%, matching market expectations. Underlying inflation reached 2.6% year on year, consistent with the preliminary figures. Despite rising inflation, the head of the European Central Bank (ECB), Christine Lagarde, suggested the ECB will be slower to respond to price pressures, compared to the US Federal Reserve.

United States: The Philadelphia Fed Index jumped to 23.2 in January, from 15.4 in December. Promisingly, the survey reported an improvement in current and future supply-chain indicators. However, there are signs that Omicron is beginning to impact production.

U.S. home sales tumbled in December as higher prices amid record low inventory continued to shut out some first-time buyers. Existing home sales dropped 4.6% to an annual rate of 6.18 million units last month. Consensus had forecast sales would fall to a rate of 6.44 million units.

Initial jobless claims rose to 286,000 in the week ended January 15, which is the highest result since mid October. Several factors distorted the data, including COVID-19, the holidays and seasonals.

Today's key data and events:

NZ BusinessNZ Mfg PMI Dec prev 50.6 (8:30am)
NZ Net Migration Nov prev 814 (8:45am)
JN CPI Dec y/y exp 0.9% prev 0.6% (10:30am)
UK GfK Cons. Sentiment Jan exp -15 prev -15 (11:01am)
UK Retail Sales Dec exp -0.6% prev 1.4% (6pm)
US Leading Index Dec exp 0.8% prev 1.1% (2am)
EZ Consumer Confidence Jan exp -9.0 prev -8.3 (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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