

Morning Report

Tuesday, 22 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,279	-0.2%	Last		Overnight Chg			Australia		
US Dow Jones	34,553	-0.6%	10 yr bond	97.23	-0.13			90 day BBSW	0.18	0.01
Japan Nikkei	26,827	0.7%	3 yr bond	97.70	-0.13			2 year bond	1.39	0.01
China Shanghai	3,410	0.1%	3 mth bill rate	99.42	-0.02			3 year bond	1.95	0.02
German DAX	14,327	-0.6%	SPI 200	7,316.0	80			3 year swap	2.29	0.12
UK FTSE100	7,442	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.58	0.00
Commodities (close & change)*			TWI	62.7	-	-	63.0	United States		
CRB Index	299.6	7.3	AUD/USD	0.7408	0.7425	0.7374	0.7397	3-month T Bill	0.44	0.05
Gold	1,935.20	13.6	AUD/JPY	88.21	88.50	87.84	88.37	2 year bond	2.12	0.18
Copper	10,301.55	-40.5	AUD/GBP	0.5623	0.5638	0.5604	0.5620	10 year bond	2.30	0.15
Oil (WTI futures)	112.47	7.8	AUD/NZD	1.0739	1.0751	1.0707	1.0741	Other (10 year yields)		
Coal (thermal)	220.60	-19.4	AUD/EUR	0.6699	0.6722	0.6674	0.6715	Germany	0.47	0.10
Coal (coking)	621.00	-9.0	AUD/CNH	4.7178	4.7299	4.6952	4.7126	Japan	0.21	0.00
Iron Ore	150.05	-1.0	USD Index	98.23	98.53	98.16	98.51	UK	1.64	0.14

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Federal Reserve Chair Powell said the central bank may raise rates more quickly if needed. US treasury yields jumped higher in response with two-year and ten-year yields reaching their highest levels since 2019. Equities declined, while the US dollar strengthened.

Share Markets: US equity prices headed lower on expectations of a more aggressive interest rate cycle. The Dow Jones lost 0.6%, while the NASDAQ closed down 0.4%. The S&P 500 ended the day flat. The ASX 200 index finished 0.2% lower in yesterday's trade. Futures are pointing to a strong open this morning.

Interest Rates: Treasury yields jumped following comments from Powell. The 2-year treasury yield jumped 18 basis points to 2.12%, while the 10-year yield gained 15 basis points to 2.30%. Both two-year and ten-year yields are at their highest levels since May 2019.

Markets are 165% priced for a 25-basis point rate hike at the May meeting. In other words, some participants are betting on a 50-basis point rate hike.

The Australian 3-year government bond (futures) yield jumped from a low of 2.18% to a high of 2.31%. The 10-year (futures) yield traded from a low of 2.64% to a high of 2.78%.

Foreign Exchange: The AUD/USD traded in a narrow range between 0.7374 and 0.7425 overnight. The

pair are currently sitting around the 0.7397 handle.

The US dollar appreciated against a basket of its G10 peers, alongside the comments from Fed officials. The DXY index traded from a low of 98.16 to a high of 98.53, before consolidating around 98.51.

The USD/JPY pair rose to a high of 119.49 - its highest level in more than six years (February 2016).

Commodities: The price of oil jumped over US\$110 per barrel overnight, for the first time in six days. The rally comes alongside a push from several EU nations to impose sanctions on Russian oil.

Gold and aluminium rose, while iron ore softened.

Australia: There were no major economic data releases yesterday.

China: A Boeing 737 crashed in the Guangxi province with 132 passengers and crew aboard. The tragedy is China's first fatal aviation accident in a decade. Authorities are yet to determine the cause of the crash, while the airline has grounded all 737 aircraft.

New Zealand: The trade deficit narrowed to \$385m in February, following a \$1.1bn deficit in January. The result is the narrowest trade deficit recorded since the trade account was last in surplus in June last year. In annual terms, the trade deficit reached a record \$8.4bn.

Spending on credit and debit cards declined 2.6% in February, alongside the spread of the Omicron

variant. January's result of a 0.7% rise in spending was revised down to 0.0% at final figures. Card spending is 1.0% higher than this time last year.

Russia & Ukraine: Russian forces are concentrating on securing Mariupol, suggesting the Kremlin may be focused on establishing a land corridor between Crimea and the Donbas region, where Russia is already in control. The Kremlin stated that progress in peace talks is "less than we would like".

Several EU countries are considering a fifth round of sanctions, including a potential ban on Russian oil. Australia announced a ban on exports of aluminium and alumina to Russia, representing approximately 20% of Russia's supply.

United Kingdom: House prices increased for a third consecutive month in March, jumping 1.7% over the month. This follows a 2.3% rise in February. House prices are 10.4% higher in annual terms – the fastest annual pace of house price growth since June 2014.

United States: Fed Chair, Jerome Powell, stated the Fed will take all "necessary steps" to rein in inflation, including hiking rates in larger 50 basis point increments if necessary. Powell stressed the need for interest rates to return to the neutral level quickly.

Raphael Bostic, head of the Atlanta Fed branch, said he was expecting a total of six hikes in 2022 and two in 2023, while stating he wished to "get moving" on balance sheet normalisation. Bostic echoed calls for interest rates to return to neutral promptly, suggesting the neutral rate is around 2.25%.

The Chicago Fed activity index fell to 0.51 in February, broadly meeting consensus expectations. The result follows a revised reading of 0.59 in January. Encouragingly, the index points to mild above trend growth in the US economy, despite recent global developments.

Today's key data and events:

AU RBA's Governor Lowe appearance at Walkley Awards (12pm)

UK Public Sector Borrowing Feb exp £8.4bn prev -£3.7bn (6pm)

US Richmond Fed index Mar exp 2 prev 1 (1am)

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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