

Morning Report

Wednesday, 23 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,161	-1.0%			Last	Overnight Chg		Australia			
US Dow Jones	33,597	-1.4%	10 yr bond		97.73	-0.06		90 day BBSW	0.08	0.00	
Japan Nikkei	26,450	-1.7%	3 yr bond		98.28	-0.06		2 year bond	1.18	0.01	
China Shanghai	3,623	-1.0%	3 mth bill rate		99.89	-0.01		3 year bond	1.62	0.00	
German DAX	14,693	-0.3%	SPI 200		7,074.0	-6		3 year swap	1.93	0.11	
UK FTSE100	7,494	0.1%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	2.20	-0.02
Commodities (close & change)*			TWI		60.6	-	-	60.6	United States		
CRB Index	267.1	3.5	AUD/USD		0.7194	0.7234	0.7172	0.7220	3-month T Bill	0.34	0.00
Gold	1,899.43	-6.9	AUD/JPY		82.62	83.19	82.12	83.07	2 year bond	1.54	0.08
Copper	9,946.00	-50.5	AUD/GBP		0.5290	0.5332	0.5278	0.5314	10 year bond	1.93	0.00
Oil (WTI futures)	92.35	1.3	AUD/NZD		1.0734	1.0739	1.0700	1.0720	Other (10 year yields)		
Coal (thermal)	200.50	12.5	AUD/EUR		0.6357	0.6377	0.6348	0.6373	Germany	0.24	0.04
Coal (coking)	439.33	3.7	AUD/CNH		4.5517	4.5753	4.5397	4.5661	Japan	0.20	-0.02
Iron Ore	135.80	-0.9	USD Index		96.09	96.26	95.84	96.07	UK	1.47	0.06

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: Risk sentiment continued to be impacted by geopolitical developments around Ukraine. The US and European nations announced sanctions on Russia following Vladimir Putin sending troops to two separatist regions of Eastern Ukraine. Equity markets were lower while short-term bond yields rose as safe-haven demand eased. The US dollar was broadly unchanged against a basket of major currencies.

Share Markets: Equity markets were weaker as investors digested the global impact of escalating tensions and economic sanctions on Russia. However, markets pared back some of their losses towards the end of the trading day.

The S&P 500 was down 1.0%, after being down as much as 1.9% during the day. The Nasdaq pared losses of 2.2% during the trading day to close 1.2% lower, and the Dow Jones fell 1.4%, after being down as much as 2.1%.

The ASX 200 fell 1.0% yesterday.

Interest Rates: Short-term interest rates rose as safe-haven demand eased somewhat.

The 2-year Treasury yield rose by 8 basis points to 1.54%. The 10-year Treasury yield was broadly unchanged at 1.93%.

The Australian 10-year government bond yield (futures) rose from 2.22% to 2.27%. The 3-year government bond yield (futures) increased from 1.67% to 1.73%.

Foreign Exchange: The US dollar initially rose during trading, before pulling back and closing broadly unchanged against a basket of major currencies. The USD Index fell from a high of 96.26 to a low of 95.84, before recovering to trade around 96.07 at the time of writing.

The AUD/USD pair advanced over the day. The pair rose from a low of 0.7172 to a high of 0.7234 and is currently trading around 0.7220.

Commodities: Oil increased amid continued geopolitical tensions. The West Texas Intermediate futures contract initially rose to a high of around \$96 before pulling back closer to \$92.

Coal advanced, while gold, copper, and iron ore pulled back.

Other commodities exported by Russia, such as wheat, corn, aluminium, and nickel rose amid escalating tensions. European natural gas futures also spiked by around 11%.

Australia: There were no major economic data releases yesterday.

Eurozone: The business climate in Germany improved in February, relative to January and consensus expectations. The IFO Business Climate Index rose to 98.9 in February. This was above consensus expectations of 96.5 and up on the revised January outcome of 96.0.

The Current Assessment Index improved to 98.6 in February, from 96.2 in January. The Expectations

Index also increased to 99.2, from 95.8.

The result suggests that confidence is improving following the impact of the Omicron variant. The prospect of higher energy prices resulting from escalating tensions in Ukraine remain a risk to the outlook.

New Zealand: Credit card spending increased by 0.7% in January. This follows a revised 0.7% rise in December. In annual terms, credit card spending jumped by 5.5%. This was up from a revised 1.6% annual increase over the year to December.

United Kingdom: Net borrowing by the public sector came in -£3.7 billion in January. This was down from a revised £14.6 billion outcome in December.

United States: House prices continued to advance at a faster-than-expected rate in December as demand remained strong amid record low housing supply. Builders continue to be impacted by supply-chain disruptions and high input costs as the backlog of dwellings approved for construction, but yet to be started, was at an all-time high.

The FHFA House Price Index rose 1.2% in December. The S&P CoreLogic 20-City index also advanced by 1.5% in December. This was above consensus expectations of a 1.1% gain. In annual terms, house prices rose by 18.6% over the year to December. This followed an 18.4% gain over the year to November and was above consensus expectations of an 18.1% gain.

Activity across the business sector accelerated in February as the impact from COVID-19 cases waned. Supply-chain disruptions and high input costs remain a challenge. Conditions in both the manufacturing and services sectors advanced by more than expected. The Markit Services PMI rose to 56.7 in February. This was up from 51.2 in January and above consensus expectations of 53.0. The Markit Manufacturing PMI also advanced, increasing to 57.5 in the month. This was above the 55.5 January outcome and higher than the 56.0 expected by consensus. Both indices indicate expansion.

Manufacturing activity softened in the Fifth District as the Richmond Fed's Manufacturing Index was weaker than expected in February. The index came in at 1 in the month, down from 8 in January and below consensus expectations of 10. Despite the fall, the index remained in positive territory, which indicates continued expansion. Falls in shipments and new orders led the decline. Capacity utilisation was also lower. However, employment improved.

Inflation concerns dampened consumer confidence as the Conference Board Consumer Confidence index fell for a second consecutive month to 110.5 in February. This was down from 111.1 in January and slightly below consensus expectations of 110.0. Views around the current situation remained robust, while future expectations declined slightly.

World: The US and European nations announced sanctions on Russia following continued escalation of tensions in the Ukraine region. The sanctions followed Vladimir Putin recognising two separatist regions in Eastern Ukraine and sending in troops to the regions. Germany halted the Nord Stream 2 pipeline project and the UK and the EU also announced sanctions.

Today's key data and events:

AU Const. Work Done Q4 exp 2.5% prev -0.3% (11:30am)
 AU Wage Price Index Q4 (11:30am)
 q/q exp 0.7% prev 0.6%
 y/y exp 2.3% prev 2.2%
 EZ CPI Jan y/y Final exp 5.1% prev 5.0% (9pm)
 NZ RBNZ Policy Setting (12pm)
 OCR Decision exp 1.00% prev 0.75%

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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