

# Morning Report

Wednesday, 23 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)				
			Last		Overnight Chg			Australia				
S&P/ASX 200	7,341	0.9%	10 yr bond			97.14	-0.08			90 day BBSW		
US Dow Jones	34,807	0.7%	3 yr bond			97.55	-0.08			2 year bond		
Japan Nikkei	27,224	1.5%	3 mth bill rate			99.36	-0.01			3 year bond		
China Shanghai	3,417	0.2%	SPI 200			7,343.0	31			3 year swap		
German DAX	14,473	1.0%	FX Last 24 hrs			Open	High	Low	Current	10 year bond		
UK FTSE100	7,477	0.5%	TWI			63.0	-	-	63.0	United States		
Commodities (close & change)*			AUD/USD	0.7397	0.7472	0.7376	0.7465	3-month T Bill	0.46	-0.01		
CRB Index	299.1	-0.5	AUD/JPY	88.37	90.27	88.34	90.15	2 year bond	2.16	0.05		
Gold	1,921.69	-14.2	AUD/GBP	0.5620	0.5634	0.5608	0.5629	10 year bond	2.38	0.09		
Copper	10,266.50	-35.0	AUD/NZD	1.0741	1.0755	1.0694	1.0721	Other (10 year yields)				
Oil (WTI futures)	111.76	-0.4	AUD/EUR	0.6715	0.6773	0.6708	0.6769	Germany	0.51	0.04		
Coal (thermal)	245.35	32.5	AUD/CNH	4.7126	4.7644	4.7022	4.7597	Japan	0.22	0.01		
Coal (coking)	614.33	-6.7	USD Index	98.51	98.97	98.32	98.45	UK	1.71	0.07		

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:** US bond yields advanced sharply after members of the US Federal Reserve Open Market Committee (FOMC) issued hawkish comments overnight. The US 2-year and 10-year bond yields closed at their highest since May 2019. Global share markets moved higher but the US dollar was sold off, enabling the AUD/USD to rise to its highest since November 2019.

**Share Markets:** US share markets moved higher, following European bourses higher. The Dow added 0.7% and the S&P 500 rose 1.1%. Meanwhile, the Nasdaq was 2.0% firmer.

**Interest Rates:** US government bonds continued to be sold off after US Fed Chair Jerome Powell's hawkish tone earlier this week and further hawkish remarks from the Fed's James Bullard overnight. The Fed's James Bullard echoed Powell's comments, saying "faster is better" when it comes to tightening. He reiterated his call for rates to rise above 3% this year.

US 10-year bond yields led the advance, rising 9 basis points to 2.38%. US 2-year yields rose 5 basis points to 2.16%. Both yields are at their highest since May 2019.

Interest-rate markets are pricing are almost fully pricing in a 50 basis point hike at the next Fed meeting in May.

The Australian 3-year government bond yield (futures) rose from 2.37% to 2.44%, while the 10-

year yield rose from 2.78% to 2.86%. Markets are fully pricing a 15 basis point rate hike (to 0.25%) at Reserve Bank's the June meeting

**Foreign Exchange:** The lift in equities, improvement in risk appetites and a sell-off in the USD has helped the AUD/USD appreciate from an overnight low of 0.7438 to a high of 0.7472. It is the highest rate since 2 November 2021 and the AUD appears poised to move higher in the near term with major resistance at around 0.7530.

The Japanese yen overnight was a notable underperformer. USD/JPY rose from 120.00 to 121.03 – the highest since January 2016. And AUD/JPY appreciated to nearly 90.30.

**Commodities:** Oil slipped after a choppy session as the European Union (EU) debates whether to ban Russian crude imports with some key members remaining opposed. Futures in New York closed 0.3% lower to US\$111.76 a barrel after trading in a wide range overnight of nearly US\$6. EU foreign policy chief Josep Borrell said he expects leaders to discuss but probably not yet approve further sanctions against Russia when they meet in Brussels later this week.

**Australia:** The Reserve Bank (RBA) Governor, Phillip Lowe, made an appearance at the Walkley Awards for Business Journalism yesterday. Governor Lowe reiterated his recent messaging, stating that the board is willing to be patient in lifting the cash rate.

Uncertainty around the persistence of supply-side problems and wages growth are considered key factors in the decision. However, Lowe did flag that the board will be monitoring changes in inflation psychology and how these changes may translate into inflation outcomes. Specifically, Lowe noted that compared to the previous decade there has been an increase in firms passing on cost increases, despite tight competition. Additionally, employees are increasingly negotiating higher wages based on rising inflation expectations.

**China:** Evergrande's preliminary restructuring proposal is on track for the end of July, it told investors. The developer, which has US\$22.7 billion in offshore debt, urged them not to take aggressive action so it can proceed with its holistic plan for all creditors.

**Eurozone:** The European Central Bank's Villeroy said that there was a danger of over-reacting to current energy price volatility, while de Guindos emphasised that regional banking exposure to Russia was limited. He added that the key concern of the ECB was to monitor second-round effects from inflation

**Russia & Ukraine:** The London Metal Exchange (LME) is talking with governments about whether it should keep allowing Russian metal to be delivered into its warehouse network.

China's top Russia envoy urged Chinese business leaders in Moscow to seize local economic opportunities and "fill the void" created by the war, a strategy that could help soften the blow to Russia from sanctions.

**United States:** The Richmond Fed's manufacturing index jumped to 13 in March, from 1 in February. There were increases in all three of the component indexes — shipments, volume of new orders and number of employees. Notably, the shipments index increased from -11 in February to 9 in March. The volume of new orders also increased from -3 in February to 10 in March.

The FOMC member Bullard issued hawkish comments overnight. Bullard said that the Fed needs to aggressively curb inflation risks and shouldn't await an easing of geopolitical tensions. He wants to see an early reduction of the balance sheet and a swift move to slightly restrictive policy levels. FOMC member Daly said high inflation warrants having interest rates "marching up to neutral" and the Fed considering whether to make policy restrictive.

**World:** The International Monetary Fund's

Managing Director, Kristalina Georgieva, warned the downside economic risks are growing for some countries, as the fallout from the war hits those harder which hadn't come back from the Covid crisis. Some 60% of low-income countries are now in or near "debt distress," up from 30% prior to Russia's invasion. The fund will next month lower its forecast for global growth in 2022.

#### Today's key data and events:

EZ Consumer Confidence Mar exp -12.9 prev -8.8 (2am)

UK CPI Feb exp 0.6% prev -0.1% (6pm)

US New Home Sales Feb exp 1.1% prev -4.5% (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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