

Morning Report

Thursday, 24 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,206	0.6%	Last		Overnight Chg			Australia			
US Dow Jones	33,132	-1.4%	10 yr bond		97.70	-0.02			90 day BBSW	0.08	0.00
Japan Nikkei	26,450	-1.7%	3 yr bond		98.23	-0.03			2 year bond	1.25	0.06
China Shanghai	3,657	0.9%	3 mth bill rate		99.91	0.00			3 year bond	1.71	0.08
German DAX	14,631	-0.4%	SPI 200		7,028.0	-90			3 year swap	1.96	0.02
UK FTSE100	7,498	0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.27	0.07	
Commodities (close & change)*			TWI	60.6	-	-	60.8	United States			
CRB Index	268.3	1.2	AUD/USD	0.7220	0.7284	0.7217	0.7231	3-month T Bill	0.34	-0.03	
Gold	1,909.41	10.8	AUD/JPY	83.07	83.84	83.02	83.14	2 year bond	1.60	0.05	
Copper	9,961.25	15.3	AUD/GBP	0.5314	0.5357	0.5311	0.5339	10 year bond	1.98	0.05	
Oil (WTI futures)	92.03	0.1	AUD/NZD	1.0720	1.0738	1.0669	1.0679	Other (10 year yields)			
Coal (thermal)	212.10	11.6	AUD/EUR	0.6373	0.6418	0.6370	0.6396	Germany	0.23	-0.02	
Coal (coking)	444.00	4.7	AUD/CNH	4.5661	4.5951	4.5627	4.5644	Japan	0.20	0.00	
Iron Ore	139.90	0.8	USD Index	96.07	96.24	95.85	96.23	UK	1.48	0.01	

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 equities declined alongside further Russia-Ukraine escalations. There was a cyberattack on the Ukrainian government and banks, and the US expanded sanctions against Russia. US bond yields and the US dollar rose.

Share Markets: Geopolitical tensions continued to weigh on equities. The Nasdaq dropped 2.6%, the S&P 500 fell 1.8% and the Dow declined 1.4%.

The ASX 200 rose 0.6% but futures point to a weak open.

Interest Rates: The US 2-year and 10-year treasury yields rose 5 basis points to 1.60% and 1.98% respectively. The lift may be associated with the possibility of further inflationary pressures alongside higher commodity prices due to the Ukraine tensions.

The Australian 3-year (futures) yield rose 2 basis points to 1.78% while the 10-year futures yield increased 2 basis points to 2.31%.

A 15 basis point Reserve Bank rate hike is priced for June 2022.

Foreign Exchange: The AUD/USD pair rose from 0.7220 to 0.7284 – a one-month high – before retracing to 0.7231. The US dollar was stronger.

Commodities: Fears that the Ukraine tensions could hit commodity supplies put upwards pressure on prices. Coal, copper and gold all rose.

Australia: Wages grew at the fastest quarterly pace in nearly 8 years; up 0.7% over the December

quarter, to be 2.3% higher over the year.

The jobs market is robust and labour demand has remained strong. Job vacancies have risen to a record high, job ads remain around their strongest levels in over a decade, and the unemployment rate declined to a 13-year low of 4.2% in December.

These factors are starting to feed into wage-setting practices, as employers look to retain and attract quality staff. Previously isolated pockets of wage growth have started to spread across more sectors of the economy.

Private-sector wages advanced 0.7% over the December quarter and 2.4% over the year. Public sector wages also grew by 0.7% in the quarter and 2.1% over the year. Despite the pick up in growth, consumer prices have increased faster than wages. As a result, real wages declined by 1.2% over the year.

We expect annual wages growth of over 3% later this year, supporting our view that the first rate hike will occur in August.

Ongoing disruption from COVID-19 lockdowns dragged on construction work in the December quarter. Construction work done edged down 0.4% over the quarter. This follows a 1.2% fall in the September quarter, which was revised down from -0.3% previously.

Private infrastructure and private residential construction led the decline. This was partially

offset by growth in public works and non-residential building construction.

Eurozone: CPI inflation was finalised at 0.3% in January, in line with preliminary estimates. In year-ended terms, headline inflation hit 5.1%, driven mostly by energy prices, while core inflation was up 2.3%. The core reading has now been above the European Central Bank's 2% target for four months. The economy is set to rebound as COVID-19 restrictions ease, which will put further upwards pressure on inflation.

New Zealand: The Reserve Bank of New Zealand (RBNZ) hiked the official cash rate for the third time in as many meetings yesterday. The official cash rate was increased by 25 basis points to 1.0%, matching the prevailing rate before the pandemic. The central bank lifted its projection for the terminal policy rate from 2.6% to around 3.4% in 2024. The RBNZ also announced that it plans to reduce its bond holdings through maturities as well as outright sales. The tone of the statement was more hawkish than expected and the Committee noted that the decision between a 25 and 50 basis point increase was finely balanced.

World: Ukrainian government agencies and banks were subject to a cyber attack that the US said was consistent with coming from Russia. The Ukrainian government is seeking to impose a nationwide state of emergency that could impose restrictions on movement for at least 30 days.

Meanwhile, the US expanded sanctions against Russia, targeting the Nord Stream 2 gas pipeline, which is seen as a key tool of influence that Russia holds over Europe. The sanctions have so far stopped short of sweeping measures but officials have warned they could be scaled up.

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Today's key data and events:

NZ Trade Balance Jan prev -\$477m (8:45am)
AU Private CAPEX Q4 exp 3.0% prev -2.2% (11:30am)
US Chicago Fed Nat Act Index Jan exp 0.16 prev -0.15 (12:30am)
US GDP Q4 exp 7.0% prev 6.9% (12:30am)
US Core PCE Q4 exp 4.9% prev 4.9% (12:30am)
US New Home Sales Jan exp 803k prev 811k (2am)
US Kansas City Fed index Feb exp 25 prev 24 (3am)

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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