

Morning Report

Tuesday, 25 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,140	-0.5%	Last		Overnight Chg			Australia		
US Dow Jones	34,365	0.3%	10 yr bond	98.06	0.02			90 day BBSW	0.07	-0.01
Japan Nikkei	27,588	0.2%	3 yr bond	98.60	0.00			2 year bond	0.87	0.02
China Shanghai	3,693	0.0%	3 mth bill rate	99.83	0.00			3 year bond	1.35	0.03
German DAX	15,011	-3.8%	SPI 200	6,953.0	-99			3 year swap	1.52	0.02
UK FTSE100	7,297	-2.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.94	0.02
Commodities (close & change)*			TWI	60.4	-	-	60.3	United States		
CRB Index	245.6	-2.9	AUD/USD	0.7176	0.7188	0.7091	0.7140	3-month T Bill	0.16	-0.01
Gold	1,842.51	7.1	AUD/JPY	81.55	81.83	80.70	81.38	2 year bond	0.96	-0.04
Copper	9,763.00	-214.0	AUD/GBP	0.5296	0.5303	0.5272	0.5294	10 year bond	1.76	0.01
Oil (WTI futures)	83.75	-1.4	AUD/NZD	1.0680	1.0703	1.0635	1.0662	Other (10 year yields)		
Coal (thermal)	220.00	5.1	AUD/EUR	0.6326	0.6341	0.6271	0.6307	Germany	-0.11	-0.04
Coal (coking)	409.67	1.3	AUD/CNH	4.5497	4.5573	4.4939	4.5221	Japan	0.14	0.00
Iron Ore	132.00	-0.9	USD Index	95.64	96.13	95.64	95.90	UK	1.13	-0.05

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: Fears of a Russian invasion in the Ukraine drove a surge in risk sentiment overnight. Risk aversion also lifted ahead of the US Federal Reserve meeting. The Fed is expected to signal a rate hike in March of 25 basis points, but some investors fear the Fed will be more aggressive. A measure of risk aversion, the VIX volatility index, hit a 15-month high of 38.9 during trade overnight.

Share Markets: Share markets took a dive overnight before paring back losses late in the session. The S&P 500 dropped more than 3% in early trade before a late rally. The index finished down 0.2%.

The NASDAQ and the Dow Jones closed in the green, finishing up 0.6% and 0.3%, respectively.

The ASX-200 hit an 8-month low yesterday, falling 36 points (or -0.5%) to 7,140. Futures are pointing to a soft open this morning.

Interest Rates: Growing risk sentiment drove an increase in demand for short-dated bonds overnight. The US 2-year government bond yield shed 4 basis points to 0.96% while the 10-year yield rose 1 basis point to 1.76%.

The US Federal Reserve begins its two-day meeting overnight (1:30am AEDT). Interest-rate markets remain resolute in anticipating that the Fed will move forward with tightening even as global assets tumble and geopolitical discord ramps up. Swap markets show a 25 basis point increase is priced in for March and close to a full percentage point is in

the market for the whole of 2022.

However, some market participants are pricing in a 50 basis point move and are not ruling out a rate hike beginning this week. There is some room for a relief rally in share markets and bond markets if the Fed signals a 25 basis point in March, as we are forecasting.

The Australian 3-year government bond yield (futures) fell from 1.41% from 1.38%, while the 10-year yield fell from 1.96% to 1.91%.

Foreign Exchange: The AUD/USD slid sharply overnight, testing the 0.7090 support level. The pair dropped from a high of 0.7188 to a 6-week low of 0.7091, before consolidating around 0.7140.

The US dollar appreciated against a basket of its G10 peers. The DXY index increased from a low of 95.63 to a high of 96.13.

Commodities: Oil softened overnight; the West Texas Intermediate futures price dropped to a weekly low of US\$83.75 a barrel. Gold edged up 0.4% while iron ore weakened.

COVID-19: The World Health Organisation has suggested that Europe is entering a "new phase" of the pandemic, as some parts begin to recover from the Omicron wave.

Australia: There were no major economic data releases yesterday.

Eurozone: Manufacturing activity gained momentum in January, while the services sector

took an Omicron hit. The Markit manufacturing purchasing managers' index (PMI) rose to 59.0, from 58.0 in December. The Markit services PMI slid from 53.1 to 51.2 in January and is at its lowest level since April 2021. However, encouragingly the index remains in expansionary territory.

United Kingdom: The Markit/CIPS manufacturing PMI edged down 1 point to 56.9 in January. The Markit/CIPS services PMI also eased, falling to 53.3 from 53.6 in December. Both the manufacturing and services PMIs are at their lowest levels since February 2021, as the spread of Omicron weighs.

United States: The Chicago Fed national activity index dipped into negative territory in December. The index fell to -0.15 from a revised outcome of 0.44 in November. A reading below zero indicates below-trend growth in the economy.

Business activity stalled in January, led by persistent capacity constraints and softer demand owing to the Omicron wave. The Markit manufacturing PMI dropped to 55.0 in January, from 57.7 in December. This is the lowest level since October 2020. The Markit services PMI plunged 6.7 points to 50.9 in January, well below consensus expectations of 55.4. Services activity is at its lowest level since July 2020, shortly after the first wave of COVID-19.

US President Joe Biden will hold a call with European leaders including French President Emmanuel Macron and Olaf Scholz amid differences over how to confront Russia. The US, UK and Australia are withdrawing diplomatic staff from the Ukraine.

Today's key data and events:

AU CPI Q4 (11:30am)

Headline q/q exp 1.1% prev 0.8%

Headline y/y exp 3.2% prev 3.0%

Underlying (trimmed mean) q/q exp 0.7% prev 0.7%

Underlying (trimmed mean) y/y exp 2.4% prev 2.1%

AU NAB Business Survey Dec (11:30am)

Business Conditions prev 12

Business Confidence prev 12

EZ IFO Bus. Climate Survey Jan exp 94.5 prev 94.7 (8pm)

US FHFA House Prices Nov exp 1.1% prev 1.1% (1am)

US S&P CoreLogic CS House Prices Nov exp 0.97% prev 0.92% (1am)

US Federal Reserve Open Market Committee (FOMC) Begins Two-Day Meeting (1:30am)

US Cons. Conf. Index Jan exp 111.8 prev 115.8 (2am)

US Richmond Fed Index Jan exp 14 prev 16 (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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