

Morning Report

Wednesday, 25 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,129	-0.3%	Last		Overnight Chg			Australia		
US Dow Jones	31,929	0.2%	10 yr bond	96.73	0.07			90 day BBSW	1.07	0.02
Japan Nikkei	26,748	-0.9%	3 yr bond	97.17	0.09			2 year bond	2.50	0.00
China Shanghai	3,218	-2.4%	3 mth bill rate	98.73	0.00			3 year bond	2.82	0.01
German DAX	13,920	-1.8%	SPI 200	7,130.0	8			3 year swap	3.03	0.01
UK FTSE100	7,484	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.32	-0.01
Commodities (close & change)*			TWI	62.4	-	-	62.5	United States		
CRB Index	313.8	-1.4	AUD/USD	0.7106	0.7113	0.7057	0.7109	3-month T Bill	1.02	-0.02
Gold	1,866.45	12.9	AUD/JPY	90.83	90.91	89.24	90.18	2 year bond	2.48	-0.14
Copper	9,568.50	127.5	AUD/GBP	0.5646	0.5675	0.5626	0.5673	10 year bond	2.75	-0.10
Oil (WTI futures)	109.77	-0.5	AUD/NZD	1.0991	1.1010	1.0978	1.1005	Other (10 year yields)		
Coal (thermal)	324.80	-21.8	AUD/EUR	0.6646	0.6649	0.6579	0.6622	Germany	0.97	-0.05
Coal (coking)	516.33	0.0	AUD/CNH	4.7336	4.7440	4.7046	4.7327	Japan	0.24	0.00
Iron Ore	129.65	0.8	USD Index	102.07	102.32	101.65	101.78	UK	1.89	-0.08

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

Main Themes: Risk sentiment weakened as a profit warning from Snap drove down the value of tech shares. Weaker-than-expected data also weighed on sentiment. Bond yields fell sharply and the US dollar declined to its lowest level in almost a month.

Share Markets: Share markets recovered some of their steep losses from earlier in the trading day but still closed lower on the day. A profit warning from tech company Snap drove the value of the tech-heavy Nasdaq down 3.8% during the trading day, before it recovered somewhat to close down 2.3%. The S&P 500 ended the day down 0.8%, after being down as much as 2.5%. The Dow Jones bucked the trend and closed 0.2% higher as shares in defensive companies rebounded.

Interest Rates: Bond yields fell sharply as risk sentiment was impacted. The US 10-year Treasury yield fell by 10 basis points to 2.75%. The 2-year Treasury yield was 14 basis points lower, at 2.48%.

The Australian 10-year government bond yield (futures) declined by 7 basis points to 3.27%, while the 3-year government bond yield (futures) fell by 10 basis points, to 2.83%.

Foreign Exchange: The US dollar weakened to its lowest level in almost a month against a basket of major currencies. The USD Index fell from a high of 102.32 to a low of 101.65, before recovering somewhat to trade around 101.78.

The AUD/USD pair was broadly unchanged on the

day after trading between a low of 0.7057 and a high of 0.7113. It is currently trading around 0.7109.

Commodities: Gold and copper advanced on the day. Oil was slightly weaker, to below US\$110 a barrel, while iron ore was broadly unchanged.

Australia: There were no major economic data releases yesterday.

Eurozone: Inflationary pressures and supply chain disruptions continue to impact economic activity, despite showing signs that pressures are beginning to ease. Manufacturing activity expanded at a slower pace than expected in May, as the manufacturing PMI declined to 54.4, from 55.5 in April. This was slightly below consensus expectations of 54.7. Activity in the services sector also slowed. The services PMI pulled back to 56.3 in May, from 57.7 in April. This was below consensus expectations of 57.4.

President of the European Central Bank (ECB), Christine Lagarde, noted that the ECB is now at a turning point and that its approach to policy was “perfectly on time”, not behind the curve. She signalled two consecutive hikes in July and September. Other ECB officials, Holzmann and Kazaks, noted that a 50 basis point hike in July was a possibility.

New Zealand: Retail sales volumes, which exclude the impact of higher prices, edged down 0.5% in the first quarter. The result was softer than expected,

following a revised 8.3% rise in sales volumes in the December quarter. The large spike in the December quarter means the level of retail sales volumes remains high despite the pull-back, which was driven by surging cost of living pressures and disruption from Omicron.

United Kingdom: Cost-of-living pressures continue to impact economic activity. Activity in the manufacturing and services sectors was weaker than expected by consensus. The manufacturing PMI slowed to 54.6 in May, following a 55.8 outcome in April. This was below expectations of 55.0. The services PMI also disappointed expectations, slowing to 51.8 in May, from 58.9 in April and below expectations of 57.0.

United States: Manufacturing activity in the central Atlantic region contracted in May for the first time since September. The US Richmond Fed manufacturing index dropped to -9 in May, the weakest result since May 2020. This followed an outcome of 14 in April and was below consensus expectations of 10. The fall was a result of declines in measures of new order and shipments, both falling into negative territory. The employment sub-index also declined, but remained above zero. Price pressures remain elevated, as the growth rate of prices paid and prices received both accelerated. In a sign that supply-chain disruptions are beginning to ease, vendor lead times and order backlogs both improved in the month.

New home sales plunged by 16.6% in April as higher interest rates and worsening affordability weigh on sales. This was the fourth consecutive monthly decline. On an annualised basis, there were 591k sales, well short of the 748k expected by consensus. This was the slowest pace of sales since April 2020. Despite the weak outcome in sales, the median price of new homes rose to \$450,600 in April.

Inflationary pressures, slowing demand growth, and supply-chain disruptions are also impacting other aspects of the economy as momentum is weakening. Activity in the manufacturing sector was weaker than expected. The manufacturing PMI slowed to 57.5 in May, following an outcome of 59.2 in April. This was below consensus expectations of 57.7. Services activity also slowed in May as the services PMI declined to 53.5, from 55.6 in April. Consensus expectations centred on an outcome of 55.2. However, despite the pullback in momentum, the indices remained above 50, indicating continued expansion.

Today's key data and events:

AU RBA's Ellis Speech (9:45am)
 AU Constr. Work Done Q1 exp 0.5% prev -0.4% (11:30am)
 NZ RBNZ Policy Setting (12pm)
 OCR Decision exp 2.00% prev 1.50%
 US Durable Goods Orders Apr Prel. exp 0.6% prev 1.1% (10:30pm)
 US FOMC Meeting Minutes May 4 (4am)

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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