Morning Report

Wednesday, 30 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,464	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,294	1.0%	10 yr bond	97.07		0.03		90 day BBSW	0.22	0.01
Japan Nikkei	28,252	1.1%	3 yr bond	97.35		0.05		2 year bond	1.91	0.12
China Shanghai	3,358	-0.3%	3 mth bill rate	99.29		0.02		3 year bond	2.47	0.07
German DAX	14,820	2.8%	SPI 200	7,503.0		56		3 year swap	2.71	0.00
UK FTSE100	7,537	0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.90	0.00
Commodities (close & change)*			TWI	64.3	-	-	64.0	**United States**		
CRB Index	294.7	-4.6	AUD/USD	0.7490	0.7519	0.7457	0.7506	3-month T Bill	0.51	-0.05
Gold	1,919.43	-3.4	AUD/JPY	92.76	93.13	91.45	92.24	2 year bond	2.36	0.04
Copper	10,342.00	87.0	AUD/GBP	0.5721	0.5740	0.5675	0.5734	10 year bond	2.39	-0.06
Oil (WTI futures)	105.13	-0.8	AUD/NZD	1.0862	1.0885	1.0817	1.0831	**Other (10 year yields)**		
Coal (thermal)	245.60	-8.0	AUD/EUR	0.6820	0.6829	0.6716	0.6772	Germany	0.63	0.06
Coal (coking)	594.67	-1.7	AUD/CNH	4.7833	4.7964	4.7553	4.7860	Japan	0.25	0.00
Iron Ore	155.35	0.7	USD Index	99.16	99.30	98.04	98.43	UK	1.64	0.02

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: Optimism surrounding progress in talks between Russia and Ukraine led to improved risk sentiment overnight. US and European equity markets gained as a result. Short-end bond yields rose and long-end bond yields declined as the US yield curve inverted for the first time since 2019. The US dollar weakened against major currencies.

Share Markets: Stock markets rose as talks between Russia and Ukraine provided hope that the war could be scaled back. The S&P 500 increased for a fourth consecutive day, up 1.2% to close at a two-month high. The Nasdaq was 1.8% higher and the Dow Jones rose by 1.0%.

Earlier in the day, European equity markets also advanced. The Euro Stoxx 50 was up 3.0% and the German Dax was 2.8% higher.

The ASX 200 rose by 0.7% yesterday and futures are pointing to a positive open today.

Interest Rates: The 2-year Treasury yield rose while the 10-year yield fell, leading to an inversion in the key US 2- and 10-year Treasury yield curve for the first time since 2019.

The US 2-year Treasury yield ranged between a low of 2.33% and a high of 2.45%, before closing 4 basis points higher at 2.36%. The 10-year yield ranged between a low of 2.38% and a high of 2.53%, and closed 6 basis points lower at 2.39%

An inverted yield curve is often viewed as a signal that a recession may be forthcoming and implies that the market is concerned that Fed rate hikes may lead to slower US growth and potentially cause a recession.

The Australian 3-year government bond yield (futures) fell from 2.72% to 2.66%. The 10-year government bond yield (futures) was down from 2.97% to 2.93%.

Foreign Exchange: The Australian dollar rose against the US dollar as the US dollar weakened against a basket of major currencies. The AUD/USD pair ranged between a low of 0.7457 and a high of 0.7519, before pulling back to 0.7506.

The USD Index declined from a high of 99.30 to a low of 98.04, before rebounding to trade around 98.43 at the time of writing.

Commodities: Oil prices briefly fell to below $100 a barrel as geopolitical risks declined, and Saudi Arabia and the UAE told the US to trust OPEC's production strategy. Prices recovered to settle around $105, down 0.7% on the day.

Gold fell in line with an improvement in risk sentiment, briefly dipping below $1,900 an ounce. Coal was also lower, while copper and iron ore rose.

Australia: Retail sales jumped 1.8% in February, despite severe flooding in parts of Queensland and NSW. The result follows a revised 1.6% rise in January and takes retail spending 9.1% higher over the year to February.

Spending on cafes, restaurants and takeaway food services surged 9.7% in the month, hitting a new record high. Spending on clothing, footwear and personal accessories, and at department stores was also strong, both up by more than 10% over the month. Spending is now above pre-Delta levels in all categories.

The Federal Budget 2022-23 was released last night at 7:30pm. The mix of a faster-than-anticipated economic recovery and booming commodity prices delivered improvements in the budget bottom line. A deficit of $79.8 billion is projected for 2021-22. In 2022-23, a deficit of $78.0 billion is expected.

A package to ease cost-of-living pressures and new spending on defence and disaster relief are key features in the Budget. Businesses have also shared in the spoils with incentives to encourage small businesses to go digital.

With an election less than two months away, the Government has needed to strike a balance between budget repair and easing cost pressures for households without unduly fuelling inflation further. Whether the Government struck the right balance is contentious, but arguably the cash handouts are modest.

Government debt is expected to peak earlier and at a lower share of GDP. Australia's debt position remains lower than other comparable countries and interest payments are projected to remain low as a share of GDP.

Budget repair is important because it helps shield Australia in the next crisis or downturn. Over the longer term, the Federal Budget position is vulnerable to fiscal slippage.

The pandemic gave rise to an opportunity to push forward sorely needed reforms to enhance productivity, including around innovation and tax, to support Australia's long-term growth. But this opportunity has largely been missed.

Russia & Ukraine: While talks between Russia and Ukraine failed to reach an agreement on cease-fire, Russia pledged to de-escalate the war in Ukraine. Russia said that it would reduce military operations near the cities of Kyiv and Chernihiv. Russia also offered a potential meeting between President Putin and President Zelenskyy.

However, US officials were sceptical of Russia's assurances. US Secretary of State, Antony Blinken, stated that: "There is what Russia says and there is what Russia does; we're focused on the latter".

United States: House price growth picked up pace in January, as the FHFA house price index rose by 1.6% over the month. This was above consensus expectations of 1.2% growth and up on the revised December outcome of 1.3%.

The CoreLogic CS house price index also recorded firmer gains. House prices across 20 cities rose by 1.8% in January, above consensus expectations of a 1.5% gain. Prices were 19.1% higher over the year to January. This follows an annual gain of 18.6% over the year to December and was above consensus expectations of 18.6% growth.

Despite lending rates being on the rise, borrower demand remains strong amid an environment of limited supply. This has contributed to continued price growth.

Consumer confidence unexpectedly strengthened in March, despite growing inflation concerns. The Conference Board consumer confidence index came in at 107.2 in the month, broadly in line with consensus expectations of 107.0. This was an increase from the February outcome of 105.7. However, the February outcome was revised down from an initial estimate of 110.5. Views on the present situation strengthened as the labour market remains strong and COVID-19 cases declined. However, inflation concerns are impacting confidence. Inflation expectations rose to a record high of 7.9% and expectations for conditions over the next six months were weaker.

Philadelphia Fed President Harker has "pencilled in seven" 25 basis point increases for 2022. He favours a "methodical" approach to increasing rates. However, if inflation doesn't show signs of easing, he is open to a 50 basis point increase in May.

Today's key data and events:

NZ Building Permits Feb prev -9.2% (8:45am)

NZ ANZ Business Confidence Mar prev -51.8 (11am)

EZ Economic Confidence Mar exp 109.0 prev 114.0 (8pm)

EZ Consumer Confidence Mar Final prev -18.7 (8pm)

US ADP Employ. Chg Mar exp 450k prev 475k (11:15pm)

US GDP Annualised q/q Q4 Final exp 7.0% prev 7.0% (11:30pm)

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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