

Morning Report

Thursday, 3 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,088	1.2%			Last	Overnight Chg		Australia		
US Dow Jones	35,629	0.6%	10 yr bond		98.08	0.01		90 day BBSW	0.07	0.00
Japan Nikkei	27,534	1.7%	3 yr bond		98.60	-0.02		2 year bond	0.87	-0.01
China Shanghai	3,522	-1.0%	3 mth bill rate		99.90	-0.01		3 year bond	1.34	0.01
German DAX	15,614	0.0%	SPI 200		6,989.0	7		3 year swap	1.52	-0.02
UK FTSE100	7,583	0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.91	0.01
Commodities (close & change)*			TWI	59.7	-	-	60.2	United States		
CRB Index	259.5	2.7	AUD/USD	0.7127	0.7159	0.7118	0.7140	3-month T Bill	0.18	-0.01
Gold	1,806.66	5.5	AUD/JPY	81.76	81.99	81.38	81.72	2 year bond	1.16	-0.01
Copper	9,730.50	176.5	AUD/GBP	0.5271	0.5283	0.5249	0.5261	10 year bond	1.77	-0.01
Oil (WTI futures)	88.36	0.2	AUD/NZD	1.0729	1.0765	1.0723	1.0759	Other (10 year yields)		
Coal (thermal)	220.10	2.0	AUD/EUR	0.6325	0.6338	0.6301	0.6316	Germany	0.04	0.00
Coal (coking)	438.33	0.7	AUD/CNH	4.5406	4.5535	4.5293	4.5388	Japan	0.18	0.00
Iron Ore	141.50	1.7	USD Index	96.29	96.30	95.81	95.97	UK	1.26	-0.04

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: The S&P 500 rose for the fourth consecutive day and has now recovered more than half its losses from the drop earlier in the month. Long-end US bond yields rose and the US dollar was weaker.

Share Markets: Solid corporate earnings supported US equities. The S&P 500 rose 1.0%, the Dow was up 0.6% and the Nasdaq climbed 0.5%. The ASX 200 rose 1.2%.

Interest Rates: The US 10-year and 2-year treasury yields closed little changed at 1.77% and 1.16% respectively. Markets continue to price the first Fed Reserve rate hike in March.

The Australian 10-year and 3-year (futures) yields finished largely unchanged at 1.93% and 1.41% respectively.

Market pricing for the first RBA rate hike pushed out from June to July this year, alongside the Reserve Bank Governor's speech.

Foreign Exchange: The AUD/USD pair traded in a narrow range, finishing slightly higher at 0.7140. The US dollar was slightly weaker.

Commodities: Oil briefly touched a 7-year high before retreating after OPEC+ agreed to another modest lift in output and Iran said it was prepared to supply markets quickly if sanctions are removed.

Australia: The Reserve Bank (RBA) Governor, Philip Lowe, delivered a speech to the Press Club

yesterday on 'The Year Ahead'. The speech followed a pivotal RBA meeting on Tuesday. The central bank dropped its quantitative-easing program and made dramatic revisions to its economic forecasts, notably sharply lifting its inflation forecasts.

On the economic outlook, Lowe appeared cautiously upbeat. He opened his speech by saying he was "optimistic" about the economy's prospects, but he added there were some challenges and uncertainties ahead. The uncertainties were used as one of several reasons why the Governor felt the RBA could be patient and wait in raising rates.

The RBA's business liaison program encouragingly suggested Omicron had not changed the story of rising job vacancies and job ads. However, Lowe wants to see more evidence of a pick-up in wages growth, to a pace fast enough that will sustainably leave inflation in the target band. Lowe appears concerned about the possibility of inertia in wages growth.

A key pivot in the speech was Governor Lowe noting that the RBA is not targeting a specific level of the wage price index before it moves on rates. In previous speeches, Lowe noted that wages would likely need to have a '3' in front of them to move inflation sustainably within the band.

Another key pivot was the consideration of broader measures of wages growth, including measures which capture bonus payments and job switching,

and the bank's own business liaison. A broader assessment of wage pressures in the economy is likely to support an earlier move in the cash rate.

Crucially, Lowe conceded in the questions session that there could be a "plausible scenario" that rates go up "later this year". And that "faster progress to unemployment and inflation does bring forward the timing of rate rises". Lowe added that as inflation is not that high now, the RBA can be patient and wait.

However, there is some risk that the inflation genie could be let out of the bottle. Lowe seems prepared to take that risk. If that risk comes to fruition, then we can expect more and/or sharper rate hikes to tame inflation and perhaps a higher terminal rate in the cash rate than otherwise would be the case.

We believe the RBA will ease off the accelerator by lifting rates by 15 basis points at its board meeting in August.

Eurozone: The preliminary CPI reading for January beat expectations, rising 0.3% in the month, taking annual inflation to 5.1% – a new record high. Core CPI rose 2.3% over the year. Price pressures were broad-based although higher energy prices due to Ukraine tensions also contributed.

New Zealand: The unemployment rate continued to fall in the December quarter, dropping to 3.2% - the lowest since records began in 1986. Employment edged up 0.1% over the December quarter, falling short of consensus expectations of a 0.4% gain. The slight increase follows a revised 1.9% surge in jobs over the September quarter.

Meanwhile, reports of labour shortages continue as the tightening labour market puts upward pressure on wages. Private sector wages rose 0.7% through the December quarter. However, this was below consensus expectations of 0.9% growth.

United States: Employment at US companies plunged in January, according to ADP employment data, as Omicron hit the labour market. Jobs fell 301k, well short of the 180k gain that was projected by consensus forecasts. However, the blow is expected to be temporary. The decline in employment was most pronounced in leisure/hospitality.

Today's key data and events:

AU Building Approvals Dec exp 3.0% prev 3.6% (11:30am)
 AU Trade Balance Dec exp \$8.3bn prev \$9.4bn (11:30am)
 JN Nikkei Serv. PMI Jan Final prev 46.6 (11:30am)
 EZ Markit Services PMI Jan Final exp 51.2 prev 51.2 (8pm)
 EZ PPI Dec y/y exp 26.1% prev 23.7% (9pm)
 EZ ECB Policy Decision exp 0.0% prev 0.0% (11:45pm)
 UK Markit/CIPS Services PMI Jan Final exp 53.3 prev 53.3 (8:30pm)
 UK Bank of England Policy Meeting (11pm)
 Bank Rate exp 0.50% prev 0.25%
 US Markit Serv. PMI Jan Final exp 50.9 prev 50.9 (1:45am)
 US ISM Non-Mfg Jan exp 59.6 prev 62.3 (2am)
 US Factory Orders Dec exp -0.4% prev 1.6% (2am)
 US Durable Goods Orders Dec Final exp -0.9% prev -0.9% (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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