bankSA

Morning Report

Friday, 4 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,078	-0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	35,111	-1.5%	10 yr bond	98.07		-0.05		90 day BBSW	0.07	0.00
Japan Nikkei	27,241	-1.1%	3 yr bond	98.58		-0.06		2 year bond	0.87	-0.01
China Shanghai	3,522	-1.0%	3 mth bill rate	99.89		-0.02		3 year bond	1.31	-0.02
German DAX	15,368	-1.6%	SPI 200	6,900.0		-78		3 year swap	1.56	0.03
UK FTSE100	7,529	-0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.87	-0.05
Commodities (close & change)*			TWI	60.2	-	-	60.0	**United States**		
CRB Index	260.0	0.5	AUD/USD	0.7140	0.7168	0.7110	0.7138	3-month T Bill	0.19	0.00
Gold	1,805.24	-1.6	AUD/JPY	81.72	82.29	81.39	82.05	2 year bond	1.20	0.04
Copper	9,877.75	147.3	AUD/GBP	0.5261	0.5267	0.5223	0.5248	10 year bond	1.83	0.06
Oil (WTI futures)	90.04	1.8	AUD/NZD	1.0759	1.0771	1.0707	1.0715	**Other (10 year yields)**		
Coal (thermal)	196.00	1.9	AUD/EUR	0.6316	0.6316	0.6234	0.6240	Germany	0.14	0.10
Coal (coking)	436.33	-2.0	AUD/CNH	4.5388	4.5512	4.5245	4.5344	Japan	0.18	0.00
Iron Ore	145.30	0.9	USD Index	95.97	96.25	95.24	95.37	UK	1.37	0.11

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: A hawkish shift by the Bank of England (BoE) and the European Central Bank (ECB) negatively impacted risk sentiment in markets overnight. Lacklustre results from mega-cap stock Meta (previously Facebook) resulted in its shares plunging and wiping out more than $230 billion in market value. Equity markets dropped significantly while bond yields jumped following the central bank meetings.

Share Markets: Shares of Meta (formally Facebook) plunged by as much as 27% overnight and wiped out more than $230 billion of market value. This was the largest fall in market value in history for any US company. The move by Meta dragged down other tech stocks and the broader equity market.

The S&P 500 ended the day down 2.4%. The tech-heavy Nasdaq dropped even further, down 3.7%, while the Dow Jones fell 1.5%.

The ASX 200 fell 0.1% yesterday. Futures are pointing to a weak open today.

Interest Rates: Bond yields increased following the hawkish shifts in tone by the BoE and ECB. The US 2-year treasury yield rose by 4 basis points, to 1.20%. The 10-year yield jumped 6 basis points, to 1.83%. In Europe, the German 10-year yield rose from 0.03% to 0.16% following the ECB decision.

The Australian 3-year government bond yield (futures) rose from 1.37% to 1.43%. The 10-year government bond yield (futures) rose from 1.88% to 1.95%.

Foreign Exchange: The euro jumped in response to the ECB meeting. The EUR/USD pair rose from a low of 1.1268 to a high 1.1451, before settling around 1.1438.

The rise in the pound was more muted. The GBP/USD pair rose from a low of 1.3538 to a high of 1.3628, before pulling back to 1.3599.

The US dollar was weaker against a basket of major currencies. The USD Index fell from a high of 96.25 to a low of 95.24. It is currently trading around 95.37.

The AUD/USD pair traded between a low of 0.7110 and a high of 0.7168, before closing relatively unchanged to where it opened, at 0.7138.

Commodities: Oil, iron ore and copper rose overnight, while gold was weaker.

Australia: Building approvals jumped by 8.2% in December, underpinned by a 27.5% spike in approvals for multi-density dwellings (e.g. apartments and townhouses). This is a volatile series. The result was the largest monthly increase for building approvals since March 2021.

Private sector house approvals declined by 1.8% in the month and have fallen 31.5% from record levels in April 2021. Despite the fall in recent months, demand remains strong, and approvals were 20.5% above pre-pandemic levels. New detached home sales, a leading indicator of private sector house

approvals, increased by 11.3% in December, the fifth consecutive month of growth.

Private sector house approvals fell across all states, except WA. Multi-density approvals spiked by 123.1% in NSW. This was driven by a large jump in approvals for high rise (9+ storey) apartments.

A growing number of headwinds are building in the market, including affordability constraints and shortages of land, labour and building materials. However, demand remains strong and new home sales are increasing.

The trade surplus narrowed for a fifth consecutive month in December, following its peak in July. The trade surplus stood at $8.4bn in December, while the November figure was revised up to $9.8bn. Import growth continued to outstrip exports. Imports surged 5.0% in the month, boosted by the earlier easing of restrictions in NSW and Victoria. This follows an 8.3% jump in November. Export edged up 0.8% in the month.

Eurozone: The European Central Bank (ECB) voted to leave rates unchanged, as was widely expected. However, the surprise for markets came during the subsequent press conference, which revealed a hawkish change from the bank. ECB President Legarde noted increased inflation concerns. This follows surging inflation in the Eurozone, which rose to a record high of 5.1% over the year to January.

The change in tone raises the potential for a shift in the ECB's policy stance at the March meeting.

Legarde also declined to rule out the possibility of a hike in rates in 2022 to control surging inflation in the Eurozone and noted that the "situation has changed." This is a pivot from previous statements.

She noted that: "Compared with our expectations in December, risks to the inflation outlook are tilted to the upside, particularly in the near term."

Following the meeting, markets brought forward their expectation of interest rate increases by the ECB to 40 basis point by the end of 2022. This is up from a 25 basis point expectation prior to the meeting.

The services sector lost some momentum at the beginning of 2022. However, the sector remained in expansionary territory. The final Markit services PMI came in at 51.1 in January. This was down from 53.1 in December and slightly below the preliminary estimate of 51.2.

Producer prices jumped by 2.9% in December and surged by 26.2% over the year. This was broadly in line with consensus expectations. This was up on the 23.7% jump over the year to November.

United Kingdom: The Bank of England (BoE) hiked rates by 25 basis points, to 0.50%, and announced that it was beginning unwinding almost 900 billion pounds of bond holding. The move to increase rates was widely expected by markets.

However, the surprise was the outcome of the vote of board members. Four of nine board members voted for a more hawkish increase of 50 basis points, rather than 25 basis points. The remaining five board members voted for a 25 basis points increase. Officials indicated that "Some further modest tightening is likely to be appropriate in the coming months." The updated forecasts indicate that the BoE expects inflation to hit 7.25% in April. Markets are now pricing rates to increase to 1.0% by May.

The services sector expanded in January as demand started to recover from the impact of Omicron restriction. The Markit/CIPS services PMI was finalised at 54.1 in January. This was above the preliminary estimate of 53.3.

United States: Activity in the services sector took a hit in January, as it was impacted by the spread of the Omicron variant. The Markit services PMI was finalised at 51.2. This was down from the 57.6 reading in December. The ISM service index also fell in January. It came in at 59.9 in January, following a revised 62.3 reading in December. While down on their December outcomes, both measures suggest that activity continued to expand over the month.

Factory orders fell by 0.4% in December, following a resided 1.8% increase in November. The fall was in line with consensus expectations. However, manufacturing remains supported by a rebuilding of inventories by businesses.

Durable goods orders declined in December for the first time in three months. Orders were down 0.7% over the month. The fall suggests that capital investment may have paused at the end of 2021.

Today's key data and events:

NZ Building Permits Dec prev 0.6% (8:45am)

AU RBA Statement on Monetary Policy (11:30am)

EZ Ger. Factory Orders Dec exp 0.3% prev 3.7% (6pm)

EZ Retail Sales Dec exp -0.9% prev 1.0% (9pm)

US Non-farm Payrolls Change Jan exp 150k prev 199k (12:30am)

US Unemploy. Rate Jan exp 3.9% prev 3.9% (12:30am)

US Avg Hrly Earnings Jan exp 0.5% prev 0.6% (12:30am)

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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