

Morning Report

Wednesday, 4 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,316	-0.4%			Last	Overnight Chg			Australia	
US Dow Jones	33,129	0.2%	10 yr bond	96.55		-0.01			90 day BBSW	0.70 0.00
Japan Nikkei	26,819	-0.1%	3 yr bond	96.83		-0.01			2 year bond	2.76 0.20
China Shanghai	3,193	2.4%	3 mth bill rate	98.62		0.00			3 year bond	3.01 0.19
German DAX	14,039	0.7%	SPI 200	7,328.0		43			3 year swap	3.31 0.18
UK FTSE100	7,561	0.2%	FX Last 24 hrs	Open	High	Low	Current		10 year bond	3.40 0.14
Commodities (close & change)*			TWI	62.2	-	-	62.8		United States	
CRB Index	306.8	-2.4	AUD/USD	0.7052	0.7148	0.7047	0.7098		3-month T Bill	0.88 -0.01
Gold	1,868.12	5.1	AUD/JPY	91.82	92.94	91.70	92.37		2 year bond	2.78 0.05
Copper	9,772.50	72.5	AUD/GBP	0.5647	0.5699	0.5639	0.5681		10 year bond	2.97 -0.01
Oil (WTI futures)	102.41	-2.8	AUD/NZD	1.0963	1.1065	1.0941	1.1027		Other (10 year yields)	
Coal (thermal)	312.60	17.4	AUD/EUR	0.6714	0.6783	0.6703	0.6745		Germany	0.97 0.00
Coal (coking)	522.00	0.3	AUD/CNH	4.7086	4.7687	4.7042	4.7177		Japan	0.23 0.00
Iron Ore	141.30	-2.4	USD Index	103.61	103.67	103.03	103.48		UK	1.96 0.05

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The Reserve Bank (RBA) delivered the first rate hike in 11½ years yesterday, as the cash rate was increased by 25 basis points, to 0.35%. Investors are also eagerly anticipating the outcome of the Federal Reserve's May meeting, due tomorrow. The market is expecting a 50 basis point increase in interest rates. Ahead of the meeting, equity prices and bond yields were volatile, while the US dollar weakened against major currencies.

Share Markets: US equity markets closed higher after a volatile session as investors anticipate the outcomes of the Federal Reserve's May meeting.

The S&P 500 ended the day 0.5% higher, after being down 0.2% during the trading day. The Nasdaq and Dow Jones both closed 0.2% higher.

The ASX 200 fell 0.4% yesterday. Futures are pointing to a positive open today.

Interest Rates: The yield curve flattened as the US 2-year treasury yield rose while the 10-year yield declined. The 2-year treasury yield ranged between a low of 2.70% and a high of 2.78%. It closed 5 basis points higher on the day, at 2.78%. The 10-year yield initially fell from a high of 3.01% to a low of 2.91%, before consolidating to close 1 basis point lower, at 2.97%.

Markets are fully pricing a 50 basis points hike at the Fed's May meeting.

The Australia 10-year government bond yield (futures) rose by 1 basis point, to 3.45%. It was

trading around 3.32% before the RBA increased the cash rate yesterday. The 3-year government bond yield (futures) also rose by 1 basis point, to 3.18%. This was up from around 3.00% before the RBA increased interest rates yesterday.

Foreign Exchange: The US dollar weakened against a basket of major currencies. The USD Index fell from a high of 103.67 to a low of 103.03, before settling around 103.48.

The AUD/USD pair was an outperformer and closed higher on the day following the increase in the cash rate from the RBA. The pair spiked to a high of 0.7148 immediately following the RBA's announcement. This followed a low of 0.7047 earlier in the trading day. The AUD then consolidated some of its gains and closed at 0.7098.

Commodities: Oil prices declined while gold was higher. Copper and coal also rose, as iron ore slipped.

Australia: Yesterday, the RBA delivered its first rate hike in 11½ years. It hiked by 25 basis points to take the cash rate to 0.35% and clearly signalled more rate hikes are on the way.

The RBA significantly revised up its inflation forecasts and does not expect inflation to fall back into its 2-3% target band until 2024. This is amid RBA expectations that the unemployment rate will fall to 3.50% by early 2023.

In the press conference, the RBA Governor stressed that they "need to normalise interest rates"

because emergency settings are no longer needed.

The RBA's economic forecasts are based on an assumption that interest rates increase to 2.50% by the end of next year, which the Governor considers to be a "more normal level" of interest rates. He also viewed a cash rate at the end of this year of 1.50–1.75% as plausible.

We expect the RBA to follow up with a rate hike in June and take back the emergency rate cuts it delivered during the pandemic very quickly. We envisage 40 basis points is on the cards for June with further tightening over 2022 to take the cash rate to 1.75% by year's end.

The Victorian Government handed down its State Budget yesterday, spearheaded by \$4.2 billion in funding towards the ongoing pandemic response. Additional funding has also been allocated towards improving school infrastructure, affordable and social housing initiatives and bolstering existing infrastructure projects.

Net debt is forecast to reach \$118.5 billion in the 2022-23 fiscal year, representing 21.7% of Victoria's gross state product (GSP). Debt is expected to continue to rise over the forward estimates, with net debt increasing to 26.5% of GSP in the 2025-26 fiscal year.

Eurozone: Producer price inflation surged to its fastest annual pace on record in March. The producer price index (PPI) jumped 36.8% over the year to March, following a revised 31.5% annual rise in February. In monthly terms, the PPI leapt 5.3% in March, beating consensus expectations of a 5.0% rise. High energy prices drove the increase. However, even excluding the impacts of energy prices, producer prices jumped by 13.6% over the year. Rising producer prices suggest consumer price inflation likely has further to run, as firms increasingly pass-on rising cost pressures.

The unemployment rate fell to 6.8% in March, while February's reading was revised up to 6.9%, from 6.8% previously. The unemployment rate is at its lowest level on record going back to April 1998.

New Zealand: Building permits rose 5.8% in March following an upwardly revised 12.2% gain in February. The result takes approvals 26% higher in annual terms.

United Kingdom: April's manufacturing purchasing managers' index (PMI) was finalised at 55.8, following a flash reading of 55.3. The result improves on March's reading of 55.2, pointing to a slight upswing in manufacturing activity.

United States: Orders for manufactured and durable goods rose in March. Factory orders were 2.2% higher in the month, beating consensus expectations of a 1.2% gain. The rise in March follows a 0.1% gain in February, which was revised up from an initial -0.5% reading. Excluding transportation equipment, factory orders rose by 2.5% in March.

Orders for durable goods were 1.1% higher in March. This follows a preliminary reading of 0.8% and a 2.1% fall in February. Durable goods orders have risen in five of the past six months.

Today's key data and events:

NZ Unemployment Rate Q1 exp 3.2% prev 3.2% (8:45am)
 NZ Employment Q1 exp 0.1% prev 0.1% (8:45am)
 NZ Private Wages Ex. Overtime Q1 exp 0.7% prev 0.7% (8:45am)
 AU Retail Sales Mar exp -1.0% prev 1.8% (11:30am)
 AU Housing Finance Mar (11:30am)
 Total exp -3.5% prev -3.7%
 Investor exp -2.5% prev -1.8%
 Owner-occupier exp -4.0% prev -4.7%
 EZ Markit Services PMI Apr Final exp 57.7 prev 57.7 (6pm)
 EZ Retail Sales Mar exp -0.2% prev 0.3% (7pm)
 US ADP Employ. Chg Apr exp 385k prev 455k (10:15pm)
 US Trade Bal. Mar exp -\$107.1bn prev -\$89.2bn (10:30pm)
 US Markit Services PMI Apr Final exp 54.7 prev 54.7 (11:45pm)
 US ISM Non-Mfg Apr exp 58.5 prev 58.3 (12am)
 US FOMC Meeting Decision (4am)
 Federal Funds Rate exp 0.75% - 1.00% prev 0.25% - 0.50%

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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