Morning Report

Thursday, 5 May 2022

Equities (close & % change)		
S&P/ASX 200	7,305	-0.2%
US Dow Jones	34,061	2.8%
Japan Nikkei	26,819	-0.1%
China Shanghai	3,193	2.4%
German DAX	13,971	-0.5%
UK FTSE100	7,493	-0.9%
Commodities (close & change)*		
CRB Index	314.3	7.5
Gold	1,881.22	13.1
Copper	9,407.75	-364.8
Oil (WTI futures)	107.81	5.4
Coal (thermal)	343.80	31.2
Coal (coking)	517.67	-4.3
Iron Ore	141.65	-1.2

Sydney Futures Exchange (close & change)				
	Last		**Overnight Chg**	
10 yr bond	96.54		0.12	
3 yr bond	96.88		0.16	
3 mth bill rate	98.60		0.07	
SPI 200	7,303.0		31	
FX Last 24 hrs	Open	High	Low	Current
TWI	62.8	-	-	62.8
AUD/USD	0.7098	0.7266	0.7089	0.7257
AUD/JPY	92.37	93.84	92.27	93.72
AUD/GBP	0.5681	0.5761	0.5675	0.5744
AUD/NZD	1.1027	1.1150	1.1021	1.1087
AUD/EUR	0.6745	0.6849	0.6739	0.6830
AUD/CNH	4.7177	4.8124	4.7153	4.8010
USD Index	103.48	103.62	102.46	102.51

Interest rates (close & change)		
Australia		
90 day BBSW	0.87	0.17
2 year bond	2.89	0.14
3 year bond	3.13	0.11
3 year swap	3.38	0.08
10 year bond	3.54	0.15
United States		
3-month T Bill	0.84	-0.06
2 year bond	2.64	-0.14
10 year bond	2.93	-0.04
Other (10 year yields)		
Germany	0.97	0.01
Japan	0.23	0.00
UK	1.97	0.01

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 US Fed hiked by 50 basis points for the first time since 2000, as expected. Further 50 basis point hikes are on the cards for coming meetings. US equities rose, US bond yields fell and the US dollar declined after Chair Powell dashed speculation of a 75 basis point move.

Share Markets: US stocks rallied after Chair Powell quelled fears of a 75 basis point hike. The Dow rose 2.8%, the S&P was up 3.0% and the Nasdaq jumped 3.2%. The ASX 200 slipped 0.2%.

Interest Rates: US bond yields dropped following Powell's comments. The 2-year treasury yield fell 14 basis points to 2.64%. The 10-year treasury yield declined 4 basis points to 2.93%.

Markets are fully priced for the Fed to hike 50 basis points at the next meeting in June.

The Australian 3-year (futures) yield dropped 16 basis points to 3.13% while the 10-year futures yield fell 12 basis points to 3.47%.

Markets are almost fully priced for the Reserve Bank to hike 40 basis points at the June meeting.

Foreign Exchange: The US dollar weakened following Powell's comment about 75 basis point hikes. The AUD/USD rose from 0.7098 to 0.7145 ahead of the Fed meeting then jumped to 0.7257 post-Fed.

Commodities: Gold and oil rose while copper slipped.

Australia: Retail sales rose by 1.6% in March and hit a new record high. In annual terms, retail sales were 9.4% higher.

The key question is how much of the rise in recent months has been driven by price increases versus a lift in activity. The strong March quarter inflation outcome suggests price increases account for a sizable share. Sales volumes data for the quarter will be released next week.

Sales increased across all categories of spending. Sales in department stores and on household goods led the rises in March, jumping by 4.1% and 3.4%, respectively. Spending on clothing, footwear & personal accessories, and food was weakest, both rising by 0.5% in March.

The outlook for consumer spending is solid. Unemployment is low, wages growth is expected to increase, and household balances sheets are strong. However, consumer sentiment has been dented by rising inflationary pressures and the prospect of higher interest rates.

Housing finance, excluding refinancing, rose 1.6% in March, despite the moderation in dwelling price growth. Consensus expectations pointed to a 1.9% decline in the month. The result follows a 3.5% decline in February.

The increase in lending in March was led by investors. Lending to investors rose 2.9% in the month to a new record high while lending to owner-occupiers increased 0.9%.

The housing boom was initially led by owner-occupiers but they have been increasingly hampered by rising affordability pressures. In March, investor lending accounted for 35.2% of new lending, excluding refinancing, the highest share since September 2017.

The commencement of the RBA's hiking cycle will take the steam out of the housing market in the coming period. However, this is coming off the back of record highs in new housing lending. Plus, the strength in the jobs market and ongoing lift in economic activity will continue to support demand for housing finance.

Eurozone: Retail sales volumes fell 0.4% in March alongside declining consumer confidence and rising inflation. Sales were still up 0.8% in annual terms.

New Zealand: The unemployment rate was unchanged at a record low of 3.2% in the March quarter. Meanwhile, employment increased 0.1% over the quarter following an equivalent rise in the December quarter. Employment was 2.9% higher in annual terms.

The tight labour market translated to a 0.7% quarterly rise in private wages excluding overtime. The result follows a 0.7% increase in wages in the previous quarter.

United States: The Federal Open Markets Committee (FOMC) raised the funds rate by 50 basis points to a range of 0.75%-1.00%, as expected. The move marks biggest hike from the central bank since 2000. It will allow its holdings of Treasuries and mortgage-backed securities to decline in June at an initial combined monthly pace of $47.5 billion, stepping up over three months to $95 billion.

Chair Powell pointed to further 50 basis-point hikes, noting "a broad sense on the committee that additional 50 basis-point increases should be on the table for the next couple of meetings".

Powell dashed speculation that the Fed would hike by an even larger 75 basis points in the months ahead, saying it is "not something that the committee is actively considering".

Powell said the FOMC would not hesitate to push rates above neutral if necessary. The neutral rate in the US has been estimated to be somewhere between 2% and 3%.

Companies added 247k jobs in April, according to ADP, falling short of expectations. It was the smallest monthly gain in the recovery from the pandemic. The result points to the challenges firms face increasing headcount in a tight labour market.

The US trade deficit widened by 22.3% to $109.8 billion in March, the largest on record. The result reflects a surge in imports as companies relied on foreign products to meet strong domestic demand. The value of imports rose 10.3% to $351.5 billion in March and exports increased 5.6% to $241.7 billion. Both values were records.

Today's key data and events:

AU Trade Balance Mar exp $10.7bn prev $7.5bn (11:30am)

AU Building Approvals Mar exp -4.0% prev 43.5% (11:30am)

CN Caixin Services PMI Apr exp 40.0 prev 42.0 (11:45am)

EZ Ger. Factory Orders Mar exp -1.1% prev -2.2% (4pm)

UK Markit Serv. PMI Apr Final exp 58.3 prev 58.3 (6:30pm)

UK BoE Policy Meeting (9pm)

Bank Rate exp 1.00% prev 0.75%

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.

Matthew Bunny, Economist
Ph: (02) 8254 0023

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist
Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Associate Economist
Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789

The information contained in this report (.the Information.) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom BankSA has a contract to supply Information, the supply of the Information is made under that contract and BankSA's agreed terms of supply apply. BankSA does not represent or guarantee that the Information is accurate or free from errors or omissions and BankSA disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to BankSA products and details are available. BankSA or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. BankSA owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of BankSA.

Any unauthorized use or dissemination is prohibited. Neither BankSA- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.