

Morning Report

Friday, 6 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,365	0.8%			Last	Overnight Chg			Australia	
US Dow Jones	32,998	-3.1%	10 yr bond		96.48	-0.09			90 day BBSW	0.90 0.03
Japan Nikkei	26,819	-0.1%	3 yr bond		96.82	-0.08			2 year bond	2.72 -0.18
China Shanghai	3,215	0.7%	3 mth bill rate		98.61	-0.01			3 year bond	2.96 -0.17
German DAX	13,903	-0.5%	SPI 200		7,213.0	-113			3 year swap	3.35 -0.01
UK FTSE100	7,503	0.1%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	3.39 -0.15
Commodities (close & change)*			TWI		62.8	-	-	63.7	United States	
CRB Index	313.9	-0.4	AUD/USD		0.7257	0.7266	0.7077	0.7111	3-month T Bill	0.80 -0.06
Gold	1,877.18	-4.0	AUD/JPY		93.72	94.03	92.29	92.59	2 year bond	2.70 0.06
Copper	9,468.00	60.3	AUD/GBP		0.5744	0.5820	0.5737	0.5754	10 year bond	3.04 0.10
Oil (WTI futures)	108.26	0.5	AUD/NZD		1.1087	1.1094	1.1041	1.1069	Other (10 year yields)	
Coal (thermal)	374.35	14.0	AUD/EUR		0.6830	0.6837	0.6733	0.6745	Germany	1.04 0.07
Coal (coking)	503.33	-14.3	AUD/CNH		4.8010	4.8150	4.7363	4.7520	Japan	0.23 0.00
Iron Ore	143.35	-1.9	USD Index		102.51	103.94	102.35	103.55	UK	1.96 0.00

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: Inflation fears roared back to the forefront of investors' minds as markets sharply reversed yesterday's moves which followed the Federal Reserve's monetary policy decision. The Bank of England hiked rates by 25 basis points to 1.0%. Equity prices plummeted, bond yields surged, and the US dollar rose to its highest level in almost 20 years against major currencies.

Share Markets: Equity prices plunged and more than erased yesterday's gains. The S&P 500 dropped by 3.6% after being down as much as 4.5% during the trading day. The Nasdaq dived by 5.0% on the day, its largest single day percentage drop since June 2000. The Dow Jones also declined by 3.1%.

The ASX 200 rose by 0.8% yesterday. Futures are pointing to a weak open today.

Interest Rates: Interest rates surged and the US yield curve steepened. The US 10-year treasury yield surged by 10 basis points to 3.04%. The 2-year yield jumped by 6 basis points to 2.70%.

The Australian 10-year government bond yield (futures) climbed by 10 basis points to 3.53%, while the 3-year government bond yield (futures) was 8 basis points higher, at 3.18%.

Foreign Exchange: The US dollar surged against major currencies and hit its highest level in almost 20 years. The USD Index rose from a low of 102.35 to a high of 103.94, before retracing to 103.55.

The AUD/USD pair weakened. The pair fell from a high of 0.7266 to a low of 0.7077. The pair has since recovered some of the drop and was trading around 0.7111 at the time of writing.

The GBP/USD pair fell to its lowest level in almost two years following the Bank of England decision. The pair fell from a high of 1.2371 to a low of 1.2357. It was trading at 1.2362 at the time of writing.

Commodities: OPEC+ countries maintained their policy of raising output by a small amount of 432,000 barrels a day for June. This was in line with analyst expectations. The decision was made despite calls from international consumers for larger increases in supply amid high prices and supply constraints. Oil prices rose slightly on the news.

Copper rose, while gold and iron ore were weaker.

Australia: Building approvals plunged by 18.5% in March. This followed significant volatility in January and February caused by the Omicron outbreak. During those months, approvals initially plummeted by 26.6% in January, before surging by 42.0% in February.

The monthly result was driven by a 29.9% drop in private multi-density dwelling approvals (e.g. apartments and townhouses). Looking into the detail, this was led by weaker apartment approvals, particularly high-rise apartments. However, this is a

volatile segment.

Private sector house approvals declined by 3.0% as momentum in the housing market continues to slow. Private sector house approvals are now 34.8% below the record high in April 2021.

The housing boom continues to slow as stretched affordability and higher fixed rates weigh on sentiment. This week, the RBA kicked-off the rate hike cycle and more hikes are expected. While demand remains strong and economic growth is robust, these headwinds are likely to weigh on building approvals in coming months.

The trade balance widened to \$9.3bn in March, from a revised \$7.4bn in February. The result was underpinned by a 5% decline in imports, while exports were flat for the month.

China: The Caixin services purchasing managers' index (PMI) fell to 36.2 in April, a more than two year low. The result follows a reading of 42.0 in March and was weaker than the 40.0 expected by consensus. Activity in the services sector has been hampered by lockdowns across large parts of the country.

Eurozone: Factory orders in Germany were weaker than expected in March, dropping 4.7% in the month. Meanwhile, February's decline of 2.2% was revised up to a 0.8% fall.

United Kingdom: The Bank of England (BoE) hiked its benchmark interest rate by 25 basis points, to 1.0% overnight, as was widely expected. The benchmark rate has now risen to its highest level since 2009 as the BoE seeks to manage rising inflation in the UK. The central bank warned that surging energy prices will drive higher inflation as it predicted that inflation would peak above 10% by the end of 2022. Reflecting the rising inflationary pressures, the vote was split as six members voted for a 25 basis point increase, while three voted for a larger move of 50 basis points.

The BoE also warned of a sharp economic slowdown as it forecast a large contraction in the fourth quarter of 2022 of almost 1% and a further smaller contraction in the third quarter of 2023. The bank noted that "global inflationary pressures have intensified sharply following Russia's invasion of Ukraine. This has led to a material deterioration in the outlook for world and UK growth".

The Markit Services PMI was finalised at 58.9 in April, down from the 62.6 outcome in March. This was revised up from the initial estimate of 58.3.

Today's key data and events:

AU RBA Statement on Monetary Policy (11:30am)
 EZ Ger. Indust. Production Mar exp -1.3% prev 0.2% (4pm)
 US Non-farm Payrolls Chg Apr exp 380k prev 431k (10:30pm)
 US Unemploy. Rate Apr exp 3.5% prev 3.6% (10:30pm)
 US Avg. Hourly Earnings Apr exp 0.4% prev 0.4% (10:30pm)
 US Cons. Credit Mar exp \$25.0bn prev \$41.8bn (5am)

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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