

# Morning Report

Wednesday, 9 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,187	1.1%	Last		Overnight Chg			Australia			
US Dow Jones	35,463	1.1%	10 yr bond		97.85	-0.01			90 day BBSW	0.07	0.00
Japan Nikkei	27,285	0.1%	3 yr bond		98.39	-0.01			2 year bond	1.07	0.07
China Shanghai	3,618	0.7%	3 mth bill rate		99.88	-0.01			3 year bond	1.55	0.09
German DAX	15,242	0.2%	SPI 200		7,102.0	18			3 year swap	1.77	0.08
UK FTSE100	7,567	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.12	0.13	
Commodities (close & change)*			TWI		59.7	-	-	60.0	United States		
CRB Index	259.5	-1.0	AUD/USD		0.7123	0.7144	0.7107	0.7144	3-month T Bill	0.26	0.00
Gold	1,826.94	6.5	AUD/JPY		81.97	82.51	81.94	82.54	2 year bond	1.34	0.05
Copper	9,809.25	-62.3	AUD/GBP		0.5263	0.5273	0.5249	0.5273	10 year bond	1.96	0.04
Oil (WTI futures)	89.60	-1.7	AUD/NZD		1.0739	1.0755	1.0717	1.0750	Other (10 year yields)		
Coal (thermal)	225.00	9.0	AUD/EUR		0.6226	0.6259	0.6223	0.6256	Germany	0.27	0.04
Coal (coking)	427.67	-6.0	AUD/CNH		4.5319	4.5483	4.5248	4.5491	Japan	0.22	0.02
Iron Ore	148.00	-0.2	USD Index		95.43	95.75	95.40	95.60	UK	1.49	0.08

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:** Bond yields continued their ascent as markets prepare for policy rate hikes from major central banks. The benchmark US 10-year treasury yield is approaching 2.0%, a level it has not reached since 2019. Major market equities rose and the Australian dollar was slightly stronger.

**Share Markets:** US equity prices increased, with the Dow up 1.1%, the S&P 500 was 0.7% higher and the Nasdaq rose 1.3%.

Chinese state-backed funds intervened in the local stock market on Tuesday, according to people familiar with the matter. The CSI 300 index ended down just 0.6% after staging a recovery from a 2.4% slump earlier in the session. The Shanghai Stock Exchange closed up 0.7%.

Concerns about the weakening economy and the slowdown in the property sector have weighed on Chinese equities. Chinese markets reopened on Monday following the weeklong Lunar New Year Holiday. Historically, Beijing has supported markets when needed around significant events or dates.

**Interest Rates:** The US 10-year treasury yield was up 4 basis points to 1.96%, and touched 1.97% in intraday trade – the highest level since November 2019. US 2-year treasury yields rose 5 basis points to 1.34%. Markets are fully priced for a 25 basis point Federal Reserve rate hike in March.

Australian 3-year and 10-year (futures) yields finished mostly unchanged at 1.61% and 2.15%

respectively. Markets are fully priced for the first Reserve Bank rate hike of 15 basis points in June.

**Foreign Exchange:** The AUD/USD pair traded in a narrow range, finishing modestly higher at 0.7144. The US dollar strengthened slightly.

**Commodities:** Oil prices dropped as investors considered a potential de-escalation over Ukraine and the resumption of Iran nuclear talks. Gold strengthened and copper fell.

**Australia:** Business confidence rebounded in January to around average levels, signalling optimism that Omicron will not derail the recovery. The confidence index rose 15 points to +3, after plunging 25 points in December alongside surging case numbers.

Meanwhile, business conditions declined 5 points to +3 in January, as businesses grappled with staff shortages, supply disruptions and a drop in foot traffic. There were declines across all three subcomponents of the conditions index.

The increase in business confidence and the deterioration in conditions was broad-based across both states and industries in January.

Cost pressures remain elevated alongside rising inflation. Notably, purchase cost growth rose to a record high of 3.4% in quarterly terms.

Forward looking indicators have generally held above their long-run averages, pointing to a solid pipeline of work, but are below the peaks they

reached last year.

As case numbers decline, we expect the upswing in economic activity to resume, which will support business conditions and investment.

**Japan:** Japan reported a current account deficit of ¥370.8bn in December, the first in 18 months. The result follows a current account surplus of ¥897.3bn in November and marks the largest current account deficit since January 2014. A sharp monthly decline in the trade balance due to surging fuel costs underpinned the swing in the current account position.

**United States:** The trade deficit widened to \$80.7 billion in December, from \$79.3 in November. Over 2021, the trade deficit widened 26.9% to a record \$859.1 billion. This reflected a surge in consumer-goods imports as the pandemic discouraged spending on services.

Consumer credit increased for an eleventh consecutive month in December, rising by \$18.9bn. The result was below consensus expectations of a \$21.9bn increase and follows a record \$38.8bn increase in November. Consumer credit continues to expand as the economy recovers.

**Today's key data and events:**

AU WBC-MI Cons. Confidence Feb prev 102.2 (10:30am)

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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