

# Morning Report

Monday, 9 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,206	-2.2%	Last		Overnight Chg			Australia		
US Dow Jones	32,899	-0.3%	10 yr bond	96.40	-0.09			90 day BBSW	0.92	0.02
Japan Nikkei	27,004	0.7%	3 yr bond	96.79	-0.04			2 year bond	2.75	0.04
China Shanghai	3,146	-2.2%	3 mth bill rate	98.58	0.00			3 year bond	3.02	0.06
German DAX	13,674	-1.6%	SPI 200	7,107.0	-51			3 year swap	3.35	-0.01
UK FTSE100	7,388	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.47	0.08
Commodities (close & change)*			TWI	63.7	-	-	63.0	United States		
CRB Index	311.3	-2.5	AUD/USD	0.7111	0.7135	0.7059	0.7068	3-month T Bill	0.80	-0.01
Gold	1,883.81	6.6	AUD/JPY	92.59	93.00	92.00	92.25	2 year bond	2.73	0.03
Copper	9,414.00	-94.5	AUD/GBP	0.5754	0.5773	0.5719	0.5726	10 year bond	3.13	0.09
Oil (WTI futures)	109.77	1.5	AUD/NZD	1.1069	1.1082	1.1008	1.1032	Other (10 year yields)		
Coal (thermal)	358.35	0.4	AUD/EUR	0.6745	0.6760	0.6681	0.6704	Germany	1.13	0.09
Coal (coking)	510.00	6.7	AUD/CNH	4.7520	4.7775	4.7362	4.7403	Japan	0.24	0.01
Iron Ore	135.10	-2.8	USD Index	103.55	104.06	103.19	103.66	UK	2.00	0.03

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:** Risk sentiment declined despite strong US jobs market data. The strong jobs report was viewed as reinforcing market expectations that the Fed will continue to hike rates to address high inflation. US equity prices fell and bond yields rose. The US dollar was slightly stronger against a basket of major currencies.

**Share Markets:** Equity markets continued to be volatile on Friday as monetary policy tightening expectations weigh on investor sentiment.

The S&P 500 declined by 0.6% on Friday. The index notched up its fifth consecutive weekly fall, which was the longest losing streak since June 2011. The tech-heavy Nasdaq dropped by 1.4% on Friday and the Dow Jones was down 0.3%.

The ASX 200 plunged by 2.2% on Friday. Futures are pointing to a weak open today.

**Interest Rates:** The US yield curve steepened as interest rates rose. The US 10-year yield jumped by 9 basis points to 3.13%, while the 2-year yield was 3 basis points higher, at 2.73%.

The Australian 10-year government bond yield (futures) rose by 10 basis point to 3.61%. The 3-year government bond yield (futures) was 5 basis points higher, to 3.21%.

**Foreign Exchange:** The US dollar was stronger against a basket of major currencies. The USD Index initially rose to a high of 104.06, its highest level since December 2002, before pulling back to a low

of 103.19. It was trading at 103.66 at the time of writing.

The AUD/USD pair weakened against a strong US dollar. The pair fell from a high of 0.7135 to a low of 0.7059. It is currently trading around 0.7068.

**Commodities:** Oil, gold and coal all rose on the day. Iron ore and copper were lower.

**Australia:** The Reserve Bank (RBA) released its quarterly Statement of Monetary Policy (SoMP) on Friday. Focus was on the RBA's forecasts, as they provide insights into the RBA's thinking around the evolution of monetary policy.

The RBA forecasts headline inflation to surge to a peak of almost 6 per cent in 2022 (previously 3½ per cent), before easing over 2023 and 2024. Underlying inflation was also revised significantly higher. The RBA does not expect inflation to return to the top end of its target band until midway through 2024.

The unemployment rate is forecast to fall to around 3½ per cent by the middle of 2023 and remain there for the rest of the forecast period. An unemployment rate this low has not been observed in Australia since 1974.

The RBA also upgraded its outlook for wages growth. The RBA expects wages to grow by 3 per cent over 2022 and for growth to accelerate to 3½ per cent by mid 2024.

**Eurozone:** The disruptive impacts of the Ukraine

war have impacted German industrial production, which declined by 3.9% in March. This was weaker than consensus expectations of a 1.3% fall and follows a 0.1% gain in the previous month. The war in Ukraine has disrupted supply chains and these are flowing through and impacting industrial production.

**United States:** Labour demand remains strong as jobs growth accelerated in April. Non-farm payrolls increased by 428k in the month. This followed an identical outcome in March and was above consensus expectations of a 380k gain. The gain in payroll jobs means that jobs have almost returned to their pre-pandemic levels. Hours worked also rose to a new record high and were slightly above pre-pandemic levels.

Jobs gains were broad-based, and were led by leisure and hospitality, followed by manufacturing, and transportation and warehousing.

The unemployment rate remained at 3.6% in April, following the same outcome in March. This was slightly higher than consensus expectations of 3.5%. The participation rate declined to 62.2%, from 62.4% in March. The participation rate has remained below pre-pandemic levels as care-giving responsibilities and other factors have impacted individuals.

Average hourly earnings were slightly below consensus expectations of 0.4%. Average hourly earnings rose 0.3% in April. This followed a revised 0.5% outcome in March. In annual terms, average hourly earnings were 5.5% higher.

Consumer credit jumped to \$52.4 billion in March. This was up from \$37.7 billion in February, which was revised down from an initial estimate of \$41.8 billion. The result was well-above consensus expectations of \$25.0 billion.

Richmond Fed President Thomas Barkin declined to rule out the possibility of a 75 basis point hike, noting "I never rule anything out. So I think anything would be on the table". St. Louis Fed President James Bullard pushed back against assertions that the Fed was 'behind the curve'. He also called for rates to rise 'expeditiously', perhaps to around 3.5%.

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

JN Nikkei Serv. PMI Apr Final prev 50.5 (10:30am)

EZ Sentix Investor Confidence May exp -20.0 prev -18.0 (6:30pm)

CH Trade Balance Apr exp \$51.9bn prev US\$47.4bn (TBC)

CH Exports Apr y/y exp 2.7% prev 14.7% (TBC)

CH Imports Apr y/y exp -3.0% prev -0.1% (TBC)

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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