

Friday, 10 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,020	-1.4%			Last	Overnight Chg		Australia		
US Dow Jones	32,273	-1.9%	10 yr bond	96.35				90 day BBSW	1.48	0.02
Japan Nikkei	28,247	0.0%	3 yr bond	96.83				2 year bond	2.74	0.00
China Shanghai	3,394	-0.8%	3 mth bill rate	97.26				3 year bond	3.09	0.01
German DAX	14,199	-1.7%	SPI 200	6,964.0				3 year swap	3.51	-0.02
UK FTSE100	7,476	-1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.61	0.06
Commodities (close & change)*			TWI	63.3	-	-	63.7	United States		
CRB Index	329.6	0.5	AUD/USD	0.7191	0.7198	0.7094	0.7096	3-month T Bill	1.23	0.00
Gold	1,847.95	-5.4	AUD/JPY	96.52	96.77	95.30	95.36	2 year bond	2.81	0.04
Copper	9,741.30	37.0	AUD/GBP	0.5735	0.5744	0.5672	0.5679	10 year bond	3.04	0.02
Oil (WTI futures)	121.51	-0.6	AUD/NZD	1.1157	1.1158	1.1102	1.1116	Other (10 year yields)		
Coal (thermal)	361.00	-4.1	AUD/EUR	0.6711	0.6713	0.6651	0.6683	Germany	1.43	0.08
Coal (coking)	390.33	-15.0	AUD/CNH	4.8186	4.8227	4.7538	4.7550	Japan	0.25	0.00
Iron Ore	139.60	-2.1	USD Index	102.54	103.37	102.15	103.30	UK	2.32	0.08

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 on growth concerns as the European Central Bank (ECB) signalled an imminent unwinding of monetary policy accommodation to tackle inflation. Global equity markets dropped, bond yields rose and the US dollar gained against a basket of major currencies.

Share Markets: Equity markets were down as risk sentiment declined amid increasing growth concerns. The S&P 500 plunged 2.4%, falling for a second consecutive day. This was the biggest one day fall in three weeks. The Nasdaq sank by 2.7%, while the Dow Jones dropped 1.9%.

Earlier in the day, European markets also declined. The Euro Stoxx 50 slumped 1.7%.

The ASX 200 fell 1.4% yesterday. Futures are pointing to a weak open today.

Interest Rates: Interest rates rose following the ECB meeting. The US 10-year treasury yield was 2 basis points higher, at 3.04%. The 2-year treasury yield increased by 4 basis points, to 2.81%. The German 10-year yield rose by 8 basis points, to 1.43%.

The Australian 10-year government bond yield (futures) rose 4 basis points, to 3.65%. The 3-year government bond yield (futures) was up by 2 basis points, to 3.17%.

Foreign Exchange: The US dollar rose against the G-10 basket. The USD Index increased from a low of 102.15 to a high of 103.37, before pulling back

slightly to 103.30.

The EUR/USD pair initially rose from 1.0720 to 1.0774 following the ECB meeting, before pulling back to 1.0619.

The AUD/USD pair was one of the underperformers on the day as risk aversion increased. The pair fell from a high of 0.7198 to a low of 0.7094. It was trading at 0.7096 at the time of writing.

Commodities: Copper was higher on the day. Oil slipped on concerns that renewed lockdowns across parts of Shanghai may impact demand for fuel. Gold, iron ore and coal also declined.

Australia: There were no major economic data releases yesterday.

China: The trade surplus widened to US\$78.8 billion in May, from US\$51.1 billion in April. Exports jumped 16.9% in annual terms, as COVID-19 related disruptions to production started to ease. Meanwhile, imports rose 4.1% over the year to May, following a flat result in April. Both import and export growth were stronger than expected by consensus.

Shanghai will place the Minhang district in the south west of the city into lockdown on Saturday to conduct mass testing for COVID-19, as the country continues its COVID-zero policy. The district is home to 2.65 million people.

Eurozone: The European Central Bank (ECB) kept its policy rate on hold at -0.50%, as was widely

expected. However, the ECB signalled the end of ultra-low interest rates, as it indicated that it expects to raise interest rates for the first time in 11 years at its July meeting.

It also signalled further interest rates increases in September and left the door open for a larger hike to combat surging inflationary pressures. The statement noted that “if the medium-term inflation outlook persists or deteriorates, a larger increment will be appropriate at the September meeting”. The suggestion of a faster-than-expected increase in interest rates surprised markets.

Looking beyond September, the statement noted that “based on its current assessment, the Governing Council anticipates that a gradual but sustained path of further increases in interest rates will be appropriate”.

The ECB also agreed that net asset purchases under its asset purchase programme (APP) would end as of 1 July 2022.

Inflation concerns remain a significant challenge as the ECB upgraded its inflation forecasts, while also downgrading its growth forecasts. Inflation is expected to hit 6.8% in 2022, before declining to 3.5% in 2023 and 2.1% in 2024. The economy is expected to grow by 2.8% in 2022, before growth is expected to decline to 2.1% in 2023 and 2024.

Today's key data and events:

NZ Card Spending Retail May prev 7.0% (8:45am)
CH PPI May y/y exp 6.4% prev 8.0% (11:30am)
CH CPI May y/y exp 2.2% prev 2.1% (11:30am)
US CPI May exp 0.7% prev 0.3% (10:30pm)
US UoM Cons. Sent. Jun Prel. exp 58.2 prev 58.4 (12am)

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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