

Friday, 11 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,288	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	35,242	-1.5%	10 yr bond	97.77				90 day BBSW	0.07	0.01
Japan Nikkei	27,696	0.4%	3 yr bond	98.27				2 year bond	1.06	-0.01
China Shanghai	3,653	0.2%	3 mth bill rate	99.85				3 year bond	1.53	-0.01
German DAX	15,490	0.1%	SPI 200	7,132.0				3 year swap	1.87	0.12
UK FTSE100	7,672	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.11	0.00
Commodities (close & change)*			TWI	60.4	-	-	60.4	United States		
CRB Index	261.6	-0.6	AUD/USD	0.7179	0.7249	0.7148	0.7162	3-month T Bill	0.37	0.09
Gold	1,827.22	-6.1	AUD/JPY	82.96	83.99	82.73	83.10	2 year bond	1.61	0.24
Copper	10,100.50	289.3	AUD/GBP	0.5306	0.5319	0.5278	0.5283	10 year bond	2.04	0.10
Oil (WTI futures)	89.87	0.2	AUD/NZD	1.0741	1.0770	1.0721	1.0736	Other (10 year yields)		
Coal (thermal)	190.85	-5.2	AUD/EUR	0.6285	0.6313	0.6255	0.6265	Germany	0.28	0.07
Coal (coking)	430.33	2.7	AUD/CNH	4.5674	4.6049	4.5520	4.5568	Japan	0.23	0.02
Iron Ore	155.50	2.6	USD Index	95.55	96.00	95.17	95.65	UK	1.52	0.09

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: Global market sentiment was driven by reactions to a stronger-than-expected inflation outcome in the United States. US inflation spiked to its highest annual pace in 40 years over the year to January. Following the result, St. Louis Fed President Bullard supported 100 basis points of rate increases by July 1.

Bond yields surged as investors priced in an acceleration of rate increases. Equity markets dropped and the US dollar was volatile.

Share Markets: Equity markets pulled back significantly following the release of the inflation data and comments from Bullard.

The S&P 500 dropped 2.2% over the day. The tech-heavy Nasdaq was down 2.1% and the Dow Jones fell 1.5%.

The ASX 200 rose 0.3% yesterday. However, futures are pointing to a fall on the open today.

Interest Rates: Interest rate markets were rocked by the inflation data as investors quickly adjusted their expectations around future interest rate increases.

The US 2-year treasury yield shot up 24 basis points to 1.61%, its highest level since December 2019. This was the largest daily basis point increase in the 2-year yield since June 2009. The 10-year yield also jumped by 10 basis points to 2.04%, its highest level since July 2019. Market pricing for the first Fed funds rate hike was brought forward after the

release of the inflation data and markets are now almost fully pricing in a 50 basis point move in March. Markets are currently fully pricing six interest rate increases over 2022.

The Australian 3-year government bond yield (futures) rose from 1.58% to 1.73%. The 10-year government bond yield futures increased from 2.13% to 2.24%.

Foreign Exchange: The US dollar was volatile following the release of the inflation data. The USD Index initially rose to a high of 96.00 following the release of the data, before pulling back to a low of 95.17. It subsequently recovered and was trading at around 95.65 at the time of writing.

The AUD/USD pair was also volatile. It initially traded down to a low of 0.7148 before rising to a high of 0.7249 as the US dollar weakened. The pair then pulled back to around 0.7162.

Commodities: Iron ore and copper were higher on the day. Oil was broadly unchanged, while gold fell from a two-week high.

Australia: Inflation expectations lifted in February according to the Melbourne Institute. Consumers expect prices will rise by 4.6% over the next 12 months, up from 4.4% in January.

United States: Inflation surged to hit its highest level in 40 years. The consumer price index (CPI) spiked by 7.5% over the year to January. This was an acceleration from the 7.0% jump over the year

to December and was also above the already strong consensus expectations of 7.3%. On a monthly basis, CPI grew by 0.6% in January. This followed a revised 0.6% increase in December and was also above consensus expectations of a 0.4% gain.

The surge in inflation was driven by increases in food, electricity and shelter prices. The food and energy indices both increased by 0.9% over the month.

However, price increases were broad-based across categories. Core inflation, after stripping out the volatile food and energy components, rose by 6.0% over the year, above consensus expectations of 5.9% growth. On a monthly basis, the core CPI rose by 0.6%, also beating expectations of 0.5%.

The increase in inflation outweighed wage increases, with real average hourly earnings falling by 1.7% over the year to January.

Following the release of the inflation data, St. Louis Fed President James Bullard called for an acceleration of interest rate increases. He said that he would "like to see 100 basis points [of rate increases] in the bag by July 1".

He noted that he "was already more hawkish but I have pulled up dramatically what I think the committee should do."

Regarding the prospect of a 50 basis point hike in March, Bullard noted that he was undecided and would defer to Chair Powell in leading the discussion.

Today's key data and events:

NZ BusinessNZ Mfg PMI Jan prev 53.7 (8:30am)
NZ Card Spending Retail Jan prev 0.4% (8:45am)
CH Current Account Q4 Prel. prev US\$73.6bn
UK GDP Q4 Prel. exp 1.1% prev 1.1% (6pm)
UK Industrial Production Dec exp 0.1% prev 1.0% (6pm)
US UoM Consumer Sentiment Feb Prel. exp 67.0 prev 67.2 (2am)

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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The Detail

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