

Wednesday, 11 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,051	-1.0%			Last	Overnight Chg		Australia		
US Dow Jones	32,161	-0.3%	10 yr bond	96.48			0.08	90 day BBSW	0.93	-0.01
Japan Nikkei	26,167	-0.6%	3 yr bond	96.91			0.05	2 year bond	2.70	-0.06
China Shanghai	3,182	1.1%	3 mth bill rate	98.69			-0.02	3 year bond	2.99	-0.04
German DAX	13,535	1.2%	SPI 200	7,014.0			-8	3 year swap	3.27	0.00
UK FTSE100	7,243	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.57	0.00
Commodities (close & change)*			TWI	62.4	-	-	62.0	United States		
CRB Index	297.1	-2.4	AUD/USD	0.6951	0.6986	0.6911	0.6943	3-month T Bill	0.86	-0.02
Gold	1,838.27	-15.9	AUD/JPY	90.65	91.16	89.75	90.55	2 year bond	2.61	0.02
Copper	9,239.00	-5.3	AUD/GBP	0.5638	0.5661	0.5603	0.5637	10 year bond	2.99	-0.04
Oil (WTI futures)	99.76	-3.3	AUD/NZD	1.0995	1.1040	1.0985	1.1029	Other (10 year yields)		
Coal (thermal)	348.75	-4.8	AUD/EUR	0.6585	0.6616	0.6546	0.6593	Germany	1.00	-0.10
Coal (coking)	503.33	-8.0	AUD/CNH	4.6977	4.7094	4.6703	4.6845	Japan	0.25	0.00
Iron Ore	128.20	1.8	USD Index	103.74	103.98	103.50	103.94	UK	1.85	-0.11

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: Market sentiment stabilised overnight ahead of US inflation data to be released this evening. US share markets rebounded, while the yield curve flattened. The US dollar rose, and oil dipped below US\$100 per barrel for the first time in over two weeks.

Share Markets: US shares rebounded overnight, ending a 3-day rout. The NASDAQ led the gains, jumping 1.0%, while the S&P 500 rose 0.3%. The Dow Jones bucked the trend, falling 0.3%.

The ASX 200 finished down 1.0% yesterday, after falling as much as 2.5% in early trade. Futures are pointing to a weak open this morning.

Interest Rates: The US yield curve flattened as short-end yields rose, while longer duration yields fell. The US 2-year treasury yield gained 2 basis points to 2.61%, while the 10-year yield eased 4 basis points to 2.99%.

Interest rate markets are fully pricing consecutive 50 basis point rate hikes at the Fed's June and July meetings.

The Australian 3-year government bond (futures) yield fell 5 basis points to a one-week low of 3.09%. The 10-year (futures) yield dropped 8 basis points to 3.52%.

Interest rate markets are split between a 25 basis point and 40 basis point move at the Reserve Bank's (RBA) June meeting. Approximately 30 basis points

worth of hikes are fully priced for the June meeting.

Foreign Exchange: The Aussie dollar weakened overnight. The AUD/USD pair fell to a 22-month low of 0.6911, before recovering to an intra-day high of 0.6986. The pair is currently trading around 0.6937.

The US dollar rose against a basket of its G-10 peers. The US dollar index jumped from a low of 103.5 to a high of 103.98, before closing at 103.92, its highest close since December 2002.

Commodities: The West Texas Intermediate (WTI) price of oil closed below US\$100 per barrel for the first time in over two weeks. WTI fell from a high of US\$104.16 to a low of US\$98.86. The decline comes as EU nations failed to reach an agreement to impose a ban on Russian oil.

Iron ore rose, while gold and copper softened.

Australia: Business conditions jumped 5 points in April to +20, the highest reading since June 2021 and more than three times the long-run average at +6. Confidence remains elevated but fell 6 points to +10 in April. It is the first fall in 4-months. Confidence is above the long-run average of +4.

Cost pressures continued to build in April. Quarterly growth in purchase and labour costs jumped to new record highs, suggesting inflationary pressures are likely to continue to build over the coming months.

Businesses have been incredibly resilient through the start of 2022 and confidence has remained

buoyant. However, staff shortages, supply-chain disruptions and growing inflationary pressures are beginning to weigh on business optimism.

The improvement in conditions was driven by a long-awaited recovery in the recreation & personal services sector, following a sustained period of weakness. Conditions are now strong across all industries.

Retail sales volumes rose by 1.2% in the March quarter, touching a new high, following a record 7.9% surge in the December quarter alongside the reopening from Delta lockdowns.

Nominal retail sales jumped 2.9% in the March quarter, implying that 1.7% of the gain was due to higher prices. In other words, the majority of the increase in nominal sales reflects higher prices, rather than households purchasing more goods or services.

The biggest quarterly jump was in cafes, restaurants and takeaway services, up 8.3%, following an 18.3% leap in the December quarter. Spending volumes in this category are now almost 5% higher than their pre-pandemic level.

There was also fresh data which showed we are continuing to shop more online than before the pandemic. Online sales accounted for 11.1% of retailing in March, unchanged from February, compared with around 6% before covid.

Consumer spending will be supported robust household balance sheets and the strong jobs market. But there are growing headwinds. Consumer sentiment has taken a hit in recent months as cost-of-living pressures rise and households anticipate increases in interest rates.

Eurozone: Sentiment rebounded in Germany in April, although remains well below the levels prevailing prior to Russia's invasion of Ukraine. The ZEW expectations survey was stronger than expected by consensus, improving to -34.3 in April from -41.0 in March. This compares to consensus expectations of a further decline in sentiment to -43.5. In contrast, the current situation index continued to deteriorate as rising inflationary pressures reduce spending power. The current situation component of the survey fell to -36.5 from -30.8.

New Zealand: Retail card spending surged 7.0% in April, rebounding from heavy declines in spending over February and March. The jump in spending reflects the easing of health restrictions in the month. However, the strong result likely also reflects rising prices, as annual inflation reached its

fastest pace in over 30 years in March.

United States: Loretta Mester, head of the Cleveland Fed branch, echoed recent comments from Fed Chair Powell supporting 50 basis point hikes at the June and July meetings. However, Mester would not rule out a larger 75 basis point move later in the year, if inflation isn't moving down.

New York's John Williams added to commentary saying the Fed must move "expeditiously" to a more neutral level. Williams said unemployment may have to rise to bring about a 'soft landing', while he expects strong economic growth this year. Williams sees inflation cooling to around 4% this year before falling to around 2.5% in 2023.

Today's key data and events:

AU WBC-MI Cons. Confidence May prev 95.8 (10:30am)

CH PPI Apr y/y exp 7.8% prev 8.3% (11:30am)

CH CPI Apr y/y exp 1.8% prev 1.5% (11:30am)

US CPI Apr exp 0.2% prev 1.2% (10:30pm)

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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