

Thursday, 12 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,065	0.2%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	31,834	-1.0%	10 yr bond	96.52		0.06		90 day BBSW	0.93	0.00
Japan Nikkei	26,214	0.2%	3 yr bond	96.90		-0.02		2 year bond	2.66	-0.04
China Shanghai	3,206	0.8%	3 mth bill rate	98.66		-0.04		3 year bond	2.95	-0.05
German DAX	13,829	2.2%	SPI 200	7,010.0		-35		3 year swap	3.28	-0.01
UK FTSE100	7,348	1.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.51	-0.06
Commodities (close & change)*			TWI	62.0	-	-	62.0	<b>United States</b>		
CRB Index	304.9	7.8	AUD/USD	0.6943	0.7054	0.6928	0.6941	3-month T Bill	0.87	-0.02
Gold	1,852.40	14.1	AUD/JPY	90.55	91.77	89.78	90.23	2 year bond	2.64	0.02
Copper	9,239.00	-5.3	AUD/GBP	0.5637	0.5692	0.5631	0.5667	10 year bond	2.92	-0.07
Oil (WTI futures)	105.71	6.0	AUD/NZD	1.1029	1.1063	1.0988	1.1025	<b>Other (10 year yields)</b>		
Coal (thermal)	385.85	8.4	AUD/EUR	0.6593	0.6673	0.6583	0.6601	Germany	0.99	-0.01
Coal (coking)	501.33	-2.0	AUD/CNH	4.6845	4.7472	4.6775	4.6919	Japan	0.25	0.00
Iron Ore	131.15	-0.6	USD Index	103.94	104.11	103.37	103.99	UK	1.83	-0.02

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:** A stronger-than-expected US consumer price index (CPI) reading compounded concerns about Fed tightening and a subsequent sharp slowdown in growth. US equities declined and long-end US bond yields rose.

**Share Markets:** US equities declined following the CPI data. The Dow fell 1.0% and the S&P 500 declined 1.6%. The S&P 500 touched its lowest level since March 2021.

The ASX 200 edged up 0.2% but futures point to a weak open.

**Interest Rates:** The US 10-year treasury yield initially spiked fell to 3.07% before settling at 2.92%, down 7 basis points on the previous day. The 2-year yield jumped to 2.74% before paring gains to finish at 2.64%, up 2 basis points on the previous session.

Markets are fully priced for 50 basis point hikes at each of the next two Fed meetings.

The Australian 10-year futures yield declined 5 basis points to 3.50% while the 3-year futures yield edged up 1 basis point to 3.10%.

Markets are pricing the cash rate to be around 25 basis points higher at the next Reserve Bank meeting in June.

**Foreign Exchange:** The AUD/USD pair fluctuated between 0.6928 and 0.7054 in volatile trade as markets digested the stronger-than-expected US CPI print. The pair finished little changed at 0.6940. The US dollar strengthened.

**Commodities:** Commodity prices were mixed. West Texas Intermediate crude oil futures rose after declining for the previous two days. Gold climbed while copper and iron ore slipped.

**Australia:** The Westpac-Melbourne Institute consumer sentiment index fell for a sixth consecutive month, dropping 5.6% to 90.4 in May. The result marks the largest one-month fall in sentiment since August 2020, when Melbourne was in its second lockdown.

Consumers are increasingly concerned about the rising cost of living as annual headline inflation in the first quarter of 2022 printed at the fastest pace in over two decades. The survey also captured the Reserve Bank's (RBA) first interest rate hike since 2010.

The combination of rising interest rates and high inflation is unsettling consumers. Consumers with a mortgage are facing a reduction in their disposable incomes as they expect an increase in borrowing costs. Meanwhile, they are getting less bang for their buck as their purchasing power is eroded by higher prices.

Consistent with rising housing affordability constraints and the commencement of the RBA's rate hike cycle, the time to buy a dwelling index fell a further 1.6% to 77.5. The index is at its lowest level since April 2008, in the midst of the RBA's last rate hike cycle.

Consumers face a mixed picture. The strong jobs market and the large saving buffers accumulated by households will support spending this year. However, rising inflationary pressures and expectations of further rate hikes are likely to continue to weigh on sentiment

**China:** Consumer price inflation beat market expectations in April, jumping to its fastest pace since August 2020. The CPI rose 2.1% over the year to April, beating consensus expectations of a 1.8% annual rise. The result follows a 1.5% annual increase in March.

Meanwhile, producer prices continued to lose steam. The producer price index rose 8.0% over the year to April, down from an annual increase of 8.3% in March. However, the result was hotter than the 7.8% annual increase expected by consensus.

**United States:** CPI data for April came in stronger than expected, although annual inflation pulled back slightly from last month. Headline inflation came in at 0.3% over the month and 8.3% in annual terms. Core inflation rose 0.6% in the month and 6.2% over the year. However, services inflation accelerated and inflation for most goods remained high, underscoring the persistence and breadth of price pressures.

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

AU Cons. Inflation Exp. May prev 5.2% (11am)

JN Current Account Mar exp ¥1.8tr prev ¥1.6tr (9:50am)

NZ Net Migration Mar prev -593 (8:45am)

UK GDP Q1 Prel. exp 1.0% prev 1.3% (4pm)

UK Industrial Production Mar exp 0.0% prev -0.6% (4pm)

US PPI Final Apr y/y exp 10.7% prev 11.2% (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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