

Wednesday, 13 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,454	-0.4%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,220	-0.3%	10 yr bond	96.92		0.06		90 day BBSW	0.31	0.00
Japan Nikkei	26,335	-1.8%	3 yr bond	97.33		0.08		2 year bond	2.17	0.03
China Shanghai	3,368	1.5%	3 mth bill rate	99.26		0.01		3 year bond	2.55	0.04
German DAX	14,125	-0.5%	SPI 200	7,417.0		-7		3 year swap	2.69	-0.02
UK FTSE100	7,577	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.08	0.07
<b>Commodities (close &amp; change)*</b>			TWI	63.9	-	-	63.8	<b>United States</b>		
CRB Index	302.9	7.7	AUD/USD	0.7421	0.7493	0.7400	0.7452	3-month T Bill	0.69	-0.05
Gold	1,966.76	13.2	AUD/JPY	93.11	93.81	92.83	93.44	2 year bond	2.41	-0.09
Copper	10,181.25	-123.5	AUD/GBP	0.5696	0.5747	0.5688	0.5731	10 year bond	2.72	-0.06
Oil (WTI futures)	100.60	6.3	AUD/NZD	1.0875	1.0889	1.0858	1.0880	<b>Other (10 year yields)</b>		
Coal (thermal)	307.90	20.4	AUD/EUR	0.6821	0.6902	0.6808	0.6883	Germany	0.79	-0.03
Coal (coking)	500.00	37.5	AUD/CNH	4.7397	4.7783	4.7267	4.7524	Japan	0.25	0.00
Iron Ore	153.50	-2.1	USD Index	99.93	100.33	99.74	100.33	UK	1.80	-0.04

Data as at 7:30am AEST. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** Headline inflation in the US rose to its highest annual level since 1981. However, bond yields dropped as core inflation was weaker than expected by markets. A jump in oil prices prompted further inflation concerns and negatively impacted equity prices. The US dollar rose against major currencies.

**Share Markets:** Risk sentiment declined and equity markets fell as oil prices surged back above US\$100 a barrel. The S&P 500 erased its gains and declined by 0.3%. The Nasdaq and Dow Jones were both also down 0.3%.

The ASX 200 fell by 0.4% yesterday.

**Interest Rates:** Interest rates tumbled as US core inflation measures came in weaker than expected by markets. The US 10-year treasury yield dropped by 6 basis points to 2.72%. The 2-year treasury yield plunged by 9 basis point to 2.41%.

The 10-year Australian government bond yield (futures) dropped from 3.15% to 3.09%, while the 3-year government bond yield (futures) fell from 2.76% to 2.68%.

**Foreign Exchange:** The US dollar strengthened against a basket of major currencies. The USD Index rose to its highest level since February 2020. The index climbed from a low of 99.74 to a high of 100.33.

The AUD/USD pair advanced despite a stronger US dollar. The pair rose from a low of 0.7400 to a high

of 0.7493, before retracing to be around 0.7452 at the time of writing.

**Commodities:** Oil prices surged to be back above US\$100 a barrel. OPEC expects there is little need for the group to alter its current production strategy as it expects the war in Ukraine to impact both oil supply and demand. OPEC cut its 2022 consumption forecast by 410,000 barrels a day and lowered its forecast for non-OPEC supply by 330,000 barrels.

Coal and gold prices rose, while copper and iron ore slipped.

**Australia:** Business conditions surged 9 points to +18 in March, the largest one-month jump since June 2020. Business confidence rose 3 index points to +16 in the month. Conditions and confidence are now both well above their respective long-run averages.

At the same time, inflationary pressures are rapidly heating up. The cost and price measures in the business survey all reached record levels in March.

This survey was conducted from 21 to 31 March, and so only partly captures the reaction of businesses to the Federal Budget handed down on 29 March. There were some new measures targeting small businesses, including incentives to go digital and upskill staff.

We expect business conditions to continue to improve over 2022 as the economy expands.

Business investment will also continue to be supported by generous tax incentives which will remain in place until next year.

**Eurozone:** Sentiment declined further across Germany in April, Europe's largest economy. However, the decline was less than expected by consensus. A decline in inflation expectations provides some hope around the outlook, but risks remain. The German ZEW survey pulled back over the month. Expectations fell to -41.0 in April, down from -39.3 in March. However, this was less negative than the -48.8 outcome expected by consensus. Views on the current situation also declined, to -30.8 in April from -21.4 in March. But this was not as weak as the expected -35.0 outcome.

**New Zealand:** New Zealand reported a net migration loss of 558 people in February, following a revised net loss of 952 people in January. The annual immigration loss climbed to 7,622 over the year to February.

**Ukraine and Russia:** Peace talks with Ukraine have reached a dead end according to Russian President Putin. He claimed that Russia's war was going "according to plan" and that the Russian economy had withstood the sanctions imposed by the West. The World Bank is preparing \$1.5 billion of aid for essential services in Ukraine.

**United Kingdom:** The unemployment rate fell to 3.8% in February, from 3.9% in January. The unemployment rate is now at its lowest level since December 2019, before the pandemic began.

**United States:** Inflation jumped to its highest annual level since 1981 over the year to March. Headline inflation surged by 8.5% over the year, above consensus expectations of 8.4%. The outcome follows a 7.9% increase over the year to February.

On a monthly basis, headline inflation rose by 1.2% in March, in line with consensus expectations and above the February outcome of 0.8%. Surging fuel prices drove half of the monthly increase.

However, core inflation, which removes the volatile components of food and energy, was weaker than expected by consensus.

Core inflation came in at 0.3% for March, below consensus expectations of 0.5%. In annual terms, core inflation was 6.5% over the year to March, below expectations of 6.6%.

The weaker-than-expected outcome for core inflation and detail behind the release suggest that

inflation may now be close to a peak or have already peaked in March.

Fed Vice Chair Lael Brainard welcomed the moderation in March core inflation, however, noted not to place too much emphasis on only one data point. She noted that controlling inflation remains the Fed's key priority and that it will move "expeditiously" to increase interest rates to control inflation. A decision on reducing the Fed's balance sheet could be made as soon as May, with reductions potentially starting in June.

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

JN Machinery Orders Feb exp -1.5% prev -2.0% (9:50am)  
 AU WBC-MI Cons. Conf. Apr prev 96.6 (10:30am)  
 NZ RBNZ Policy Setting (12pm)  
 OCR Decision exp 1.25% prev 1.00%  
 UK CPI Mar exp 0.8% prev 0.8% (4pm)  
 US PPI Final Mar y/y exp 10.6% prev 10.0% (10:30pm)  
 CH Trade Balance Mar exp US\$21.7b prev US\$30.6b (TBC)  
 Exports Mar y/y exp 13.0% prev 6.2% (TBC)  
 Imports Mar y/y exp 8.4% prev 10.4% (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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