

Monday, 14 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,217	-1.0%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,738	-1.4%	10 yr bond	97.89		0.11	90 day BBSW	0.08	0.01	
Japan Nikkei	27,696	0.4%	3 yr bond	98.37		0.09	2 year bond	1.19	0.14	
China Shanghai	3,629	-0.7%	3 mth bill rate	99.87		0.02	3 year bond	1.67	0.14	
German DAX	15,425	-0.4%	SPI 200	7,075.0		-33	3 year swap	1.88	-0.02	
UK FTSE100	7,661	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.21	0.11
Commodities (close & change)*			TWI	60.4	-	-	60.1	<b>United States</b>		
CRB Index	263.1	1.5	AUD/USD	0.7162	0.7185	0.7109	0.7133	3-month T Bill	0.34	-0.06
Gold	1,858.76	31.9	AUD/JPY	83.10	83.26	81.98	82.25	2 year bond	1.50	-0.08
Copper	9,894.50	-410.5	AUD/GBP	0.5283	0.5288	0.5253	0.5264	10 year bond	1.94	-0.09
Oil (WTI futures)	93.10	3.2	AUD/NZD	1.0736	1.0753	1.0710	1.0734	<b>Other (10 year yields)</b>		
Coal (thermal)	195.10	4.3	AUD/EUR	0.6265	0.6304	0.6248	0.6288	Germany	0.30	0.01
Coal (coking)	431.67	1.3	AUD/CNH	4.5568	4.5679	4.5278	4.5406	Japan	0.23	0.00
Iron Ore	146.65	-3.2	USD Index	95.65	96.11	95.64	96.08	UK	1.55	0.02

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:** Risk sentiment was dented as tensions escalated between Russia, the US and other nations regarding the Ukraine situation. Equity markets and bond yields fell, and the US dollar increased. Several countries, including Australia, advised their citizens to leave the Ukraine as soon as possible as US officials warned that Russia could invade at any time. Australia and other countries evacuated their Ukrainian embassy staff and moved them to other locations.

**Share Markets:** Equity markets fell as investors weighed the risks of an escalation of tensions in the Ukraine and the possibility of an imminent invasion. The S&P 500 fell 1.9%, the Nasdaq dropped 2.8% and the Dow Jones was down 1.4%.

The ASX 200 fell 1.0% on Friday. Futures are suggesting a weak open today.

**Interest Rates:** Investors flocked to the safety of government bonds amid the rising tensions. The shift led to an increase in bond prices and a large decrease in bond yields.

The US 10-year treasury yield fell 9 basis points to 1.94%. The 2-year treasury yield dropped 8 basis points to 1.50%.

Investors also paired back their expectations of a 50 basis point rate increase in March. The market is pricing in around a 50% probability of a 50 basis point move in March.

The Australian 10-year government bond yield

(futures) fell from 2.23% to 2.12%. The 3-year government bond yield (futures) dropped from 1.72% to 1.63%.

**Foreign Exchange:** The US dollar rose against most major currencies, except for the Japanese yen.

The USD Index rose from a low of 95.64 to a high of 96.11, before settling at 96.08.

The AUD/USD pair was weaker amid the US dollar strength. The pair traded between a low of 0.7109 and a high of 0.7185. It is trading at 0.7133 at the time of writing.

The Russian ruble fell by the largest amount since March 2020 amid the escalating tensions around Ukraine.

**Commodities:** Oil prices jumped as investors weighed the potential impact to oil supplies amid the Ukraine tensions. Major global oil benchmark indices rose. WTI futures increased to be above \$93 and Brent crude hit \$95, its highest level since 2014.

Gold and coal prices also rose on Friday, while iron ore and copper dropped.

Investors will be closely monitoring gas markets today as Russia didn't book pipeline space to transport natural gas to Germany.

**Australia:** The RBA Governor appeared before Parliament for the central bank's semi-annual testimony on Friday. He reiterated many points that have been made in recent weeks about the RBA's economic outlook and that it is prepared to be

patient before increasing interest rates. The Governor noted that “it is certainly plausible” that interest rates would need to increase in 2022. However, the Governor reiterated that the board is prepared to be patient and that “I think just getting one more CPI is not enough for that evidence to emerge.”

Regarding inflationary pressures, the RBA Governor noted that the situation in Australia is different to a number of other countries. It was noted that increases in the price of goods, energy, and rent were not as significant in Australia as many other countries.

The RBA remains keen to see wage pressures emerge before it considers that inflation can remain sustainably within the 2-3% band. The RBA will be monitoring a broad range of wage indicators to ascertain whether broad wage pressures are emerging.

Regarding the level of full employment, RBA officials noted that while the level of full employment is highly uncertain, it is likely to be when the unemployment rate is around the ‘high 3s to low 4s.’

**China:** The current account surplus rose to \$119.4 billion in the fourth quarter of 2021, according to preliminary data. This was an increase from the \$73.6 billion surplus in the previous quarter.

The current account surplus for calendar year 2021 was \$315.7 billion, or 1.8% of GDP.

Exports and imports both grew steadily as the global economy recovers from the pandemic. The State Administration of Foreign Exchange expects that international payments will be broadly balanced amid a resilient economy.

**New Zealand:** The BusinessNZ manufacturing purchasing managers’ index (PMI) softened to 52.1 in January. The result follows a revised outcome of 53.8 in December. Four of the five sub-indexes declined in the month. However, the index remains in expansionary territory.

Retail card spending jumped 3.0% in January, after a more modest revised 0.3% gain in December. This is the fifth consecutive monthly increase in retail card spending, taking annual growth to 6.5%.

**United Kingdom:** The economy expanded by 1.0% over the December quarter of 2021. This was below consensus expectations of 1.1% growth and follows a revised 1.0% outcome in the previous quarter. The result takes annual GDP growth over 2021 to 6.5%.

Industrial production rose by 0.3% in December. This was above consensus expectations of a 0.1% gain and down from a revised 0.7% outcome in November.

**United States:** President Biden held a one-hour long phone call with Russian President Putin over the weekend. However, the discussion failed to materially change the situation. The US President continued to advise against an invasion of Ukraine and warned that Moscow would face severe costs and a decisive response if it were to do so.

Consumer confidence has been dented by rising inflation expectations. The University of Michigan consumer sentiment index fell to its lowest level in more than 10 years. The index dropped to 61.7 in February, down from 67.2 in January. This was well below consensus expectations of 67.0. Inflation expectations rose to their highest level since July 2008. Expectations for inflation over the next year increased to 5.0%, from 4.9% in January. Longer term inflation expectations are also high. Expectations for inflation during the next 5-10 years were at 3.1%, the highest level since 2011. The current conditions index fell to 68.5, from 72.0 in January. The expectations component also dropped to its lowest level since 2011. It fell to 57.4 in February, from 64.1 in January.

#### Today’s key data and events:

There are no major economic data releases due today

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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