

Wednesday, 15 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,686	-3.5%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	30,365	-0.5%	10 yr bond	95.91		-0.14		90 day BBSW	1.62	0.12
Japan Nikkei	26,630	-1.3%	3 yr bond	96.44		-0.08		2 year bond	3.08	0.33
China Shanghai	3,446	1.0%	3 mth bill rate	96.78		-0.08		3 year bond	3.45	0.33
German DAX	13,304	-0.9%	SPI 200	6,637.0		-40		3 year swap	4.07	0.40
UK FTSE100	7,187	-0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.96	0.28
<b>Commodities (close &amp; change)*</b>			TWI	63.3	-	-	62.5	<b>United States</b>		
CRB Index	315.7	-5.8	AUD/USD	0.6925	0.6970	0.6851	0.6876	3-month T Bill	1.70	0.05
Gold	1,808.49	-63.1	AUD/JPY	93.09	93.90	92.43	93.12	2 year bond	3.43	0.07
Copper	9,226.75	-65.8	AUD/GBP	0.5708	0.5742	0.5691	0.5732	10 year bond	3.47	0.11
Oil (WTI futures)	118.93	-2.0	AUD/NZD	1.1058	1.1098	1.1032	1.1060	<b>Other (10 year yields)</b>		
Coal (thermal)	330.75	-6.3	AUD/EUR	0.6653	0.6680	0.6586	0.6603	Germany	1.76	0.13
Coal (coking)	386.33	1.3	AUD/CNH	4.6958	4.7121	4.6317	4.6469	Japan	0.25	-0.01
Iron Ore	133.00	-0.2	USD Index	105.20	105.65	104.62	105.47	UK	2.59	0.06

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:** The risk-off mood persisted ahead of the Fed's rate decision due tomorrow. Interest rate markets ramped up bets for more aggressive policy tightening, pushing US yields to decade highs. US equities continued to slide, while the US dollar appreciated to a near 20-year high. Domestic yields also surged, as markets expect the Reserve Bank (RBA) will need to adopt an even more aggressive approach to policy tightening.

**Share Markets:** The risk averse mood persisted amongst share markets overnight. The S&P 500 and the Dow Jones declined for a fifth consecutive day, falling 0.4% and 0.5%, respectively. The NASDAQ bucked the trend, edging up 0.2%.

The ASX 200 fell 3.5% yesterday, after falling as much as 5.0% on open. This was the biggest one-day fall since May 2020. Futures are pointing to a soft open this morning.

**Interest Rates:** The US yield curve rose and steepened slightly overnight, as investors price aggressive rate rises from the Fed. The 2-year treasury yield jumped 7 basis points to 3.43%, its highest level in more than 14½ years. The 10-year yield rose 11 basis points to 3.47%, marking an 11-year high.

Over the last three trading sessions US yields have moved by an incredible amount, jumping by close to half a per cent. In the previous three sessions the 2-year treasury yield has surged 62 basis points,

while the 10-year yield has jumped 43 basis point over the same period.

Interest rate markets are almost fully pricing a 75 basis point rate hike from the Fed tomorrow. The Fed has not moved by 75 basis points since November 1994. Markets are expecting the Fed to respond aggressively to the May inflation print released Friday, which saw the consumer price index (CPI) rise 8.6% in annual terms, a 40-year high. However, if the Fed holds course with a 50 basis point hike tomorrow, we may see a pull-back in yields.

Domestic yields also spiked yesterday as markets ramped up bets that the RBA will take a more aggressive approach to policy tightening, alongside similar expectations for the US Fed. The Australian 3-year government bond (futures) yield climbed 8 basis points to 3.56%, its highest level since March 2012. The 10-year (futures) yield rose 14 basis points to 4.07%.

Swap yields also rose sharply yesterday. The 3-year swap yield jumped 40 basis points yesterday to 4.06%, while 5-year swap yields gained 25 basis points to 4.33%, both reaching a 10-year high.

Interest rate markets are fully pricing a 50 basis point rate hike at the RBA's July meeting. Market pricing implies the cash rate will hit 3.60% by the end of 2022 and peak around 4.50% next year. This compares to Friday, when market pricing was for a

cash rate of 3.20% at the end of 2022 and a peak of around 3.75%.

**Foreign Exchange:** The Aussie dollar continued to soften on the back of USD strength. The AUD/USD pair traded from a high of 0.6970 to a 4-week low of 0.6851. The pair is currently trading at around 0.6880 at the time of writing and key support sits between 0.6825-30.

The US dollar strengthened further, supported by aggressive interest rate expectations and safe-haven demand. The DXY index rose from a low of 104.62 to a high of 105.65, its highest level since December 2002. The dollar index is currently trading around 105.52.

**Commodities:** The West Texas Intermediate (WTI) price of oil softened to around US\$119 per barrel, after hitting a 3-month high of US\$128.68 per barrel overnight. OPEC halved its growth expectations for oil demand next year, while talks between the US and Iran on a potential nuclear deal continue.

Iron ore, copper and gold softened.

**Australia:** The RBA Governor Lowe said he expects headline inflation to peak near 7% at the end of this year, in his first public address since the RBA hiked rates by 50 basis points last week. Governor Lowe noted it would be 'plausible' for interest rates to climb above 2.50%, while the RBA expects the economy to continue to grow despite rising interest rates.

Business confidence declined by 4 index points to +6 in May but remained above the long-run average. A range of factors are impacting confidence, including inflationary pressures, labour shortages and supply-chain disruptions. The fall in consumer sentiment and increases in interest rates from the Reserve Bank are also likely weighing on business confidence.

Business conditions declined in May to +16, ending a run of three consecutive months of improvement. Despite the decline, conditions remain well above the long-run average. The decline reflected a fall in the profitability and trading sub-indices, while employment gained.

Leading indicators point to continued economic momentum in the near term. Business investment is also likely to be supported by generous tax incentives which remain in place until June 2023.

However, growing headwinds, including the prospect of continued pressure on supply chains as China implements its zero-COVID policy, and a risk of a slowdown in global growth may weigh on

confidence in the months ahead.

**Eurozone:** The German Zew expectations survey rose to -28.0 in June, from -34.3 in May, as concerns around the impact of the Ukraine conflict were mildly pared back. The current situation index also improved, lifting to -27.6 from -36.5 previously.

**Japan:** Industrial production for April was revised lower at final figures. Production declined 1.5% in the month, down on a 0.3% gain in April. In annual terms, industrial production declined 4.9%.

**United Kingdom:** The unemployment rate edged up to 3.8% in April, from a near 50-year low of 3.7% in March. Employment rose strongly over the period, despite the rise in the unemployment rate as participation lifted.

**United States:** Producer price inflation softened for a second consecutive month in May. The producer price index (PPI) rose 10.8% in annual terms, compared to a revised 10.9% gain in April and 11.5% in March. The PPI rose 0.8% in the month, while April's result was revised down from 0.5% to 0.4%. The core measure, which excludes food and energy, rose 8.3% over the year to May, down from a revised 8.6% gain over the year to April.

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

NZ Current Account Q1 exp -\$6.0bn prev -\$7.3bn (8:45am)

JN Machinery Orders Apr exp -1.3% prev 7.1% (9:50am)

AU WBC-MI Cons. Confidence Jun prev 90.4 (10:30am)

CH Retail Sales May y/y exp -7.1% prev -11.1% (12pm)

CH Indust. Production May y/y exp -0.9% prev -2.9% (12pm)

EZ Industrial Production Apr exp 0.5% prev -1.8% (7pm)

EZ Trade Balance Apr exp -€14.5bn prev -€17.6bn (7pm)

US Retail Sales May exp 0.1% prev 0.9% (10:30pm)

US NY Empire Mfg Jun exp 2.5 prev -11.6 (10:30pm)

US Import Price Index May exp 1.1% prev 0.0% (10:30pm)

US Export Price Index May exp 1.3% prev 0.6% (10:30pm)

US Business Inventories Apr exp 1.2% prev 2.0% (12am)

US NAHB Housing Market Index Jun exp 67 prev 69 (12am)

US FOMC Meeting Decision (4am)

Federal Funds Rate exp 1.25% - 1.50% prev 0.75% - 1.00%

US Total Net TIC Flows Apr prev \$149.2bn (6am)

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.

**Jameson Coombs, Associate Economist**

Ph: 0401 102 789

## Contact Listing

**Chief Economist**

Besa Deda  
dedab@banksa.com.au  
(02) 8254 3251

**Economist**

Matthew Bunny  
matthew.bunny@banksa.com.au  
(02) 8254 0023

**Senior Economist**

Jarek Kowcza  
jarek.kowcza@banksa.com.au  
0481 476 436

**Associate Economist**

Jameson Coombs  
jameson.coombs@banksa.com.au  
0401 102 789

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