Morning report

Wednesday, 16 February 2022

Equities (close & % change)		
S&P/ASX 200	7,207	-0.5%
US Dow Jones	34,969	1.2%
Japan Nikkei	26,865	-0.8%
China Shanghai	3,612	0.5%
German DAX	15,413	2.0%
UK FTSE100	7,609	1.0%
Commodities (close & change)*		
CRB Index	265.4	2.3
Gold	1,855.53	-15.7
Copper	10,003.50	40.0
Oil (WTI futures)	91.89	-3.6
Coal (thermal)	190.00	-1.3
Coal (coking)	432.00	-0.3
Iron Ore	136.45	0.5

Sydney Futures Exchange (close & change)				
	Last		**Overnight Chg**	
10 yr bond	97.73		-0.07	
3 yr bond	98.27		-0.04	
3 mth bill rate	99.87		-0.01	
SPI 200	7,165.0		62	
FX Last 24 hrs	Open	High	Low	Current
TWI	60.0	-	-	60.1
AUD/USD	0.7123	0.7157	0.7102	0.7153
AUD/JPY	82.33	82.73	81.89	82.71
AUD/GBP	0.5267	0.5285	0.5249	0.5284
AUD/NZD	1.0775	1.0791	1.0732	1.0776
AUD/EUR	0.6306	0.6311	0.6276	0.6296
AUD/CNH	4.5290	4.5449	4.5084	4.5329
USD Index	96.34	96.37	95.96	95.98

Interest rates (close & change)		
Australia		
90 day BBSW	0.08	0.01
2 year bond	1.20	0.07
3 year bond	1.65	0.05
3 year swap	1.95	0.04
10 year bond	2.19	0.05
United States		
3-month T Bill	0.37	-0.03
2 year bond	1.56	-0.01
10 year bond	2.04	0.05
Other (10 year yields)		
Germany	0.31	0.03
Japan	0.22	0.00
UK	1.58	-0.01

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: Headlines on the Russian-Ukraine border dominated markets, overshadowing hotter-than-expected US inflation data. Sentiment improved on reports that Vladimir Putin has sought a diplomatic resolution and announced a partial withdrawal of troops from the Ukraine border. Equity markets rallied on the news, while long-end treasury yields jumped, and the USD softened.

Share Markets: Equity markets were buoyed by potential de-escalation on the Russia-Ukraine border. The NASDAQ led the gains jumping 2.5%. The S&P 500 and the Dow Jones rose 1.3% and 1.2%, respectively.

The ASX-200 dropped 0.5% in yesterday's trade. However, futures markets point to a strong open this morning.

Interest Rates: US 2-year treasury yields fell one basis point to 1.56%, while the 10-year treasury yield jumped 5 basis points to 2.04%.

Markets are priced for the Fed to commence hiking in March with 6 or 7 rate hikes over 2022.

The Australian 3-year (futures) yield increased from a low of 1.70% to a high of 1.77%. The 10-year (futures) yield rose from 2.20% to 2.29%.

A 15 basis point rate hike from the RBA is fully priced for June. There is a 53% probability attached to a May hike.

Foreign Exchange: The AUD/USD pair strengthened. The pair traded from a low of 0.7102 to a high of 0.7157, before settling around 0.7153.

The US dollar depreciated against a basket of its G10 peers. The DXY index fell from a high of 96.29 to around 95.98 at the time of writing.

Commodities: Oil prices declined overnight on news of a potential Russia-Ukraine diplomatic resolution. However, prices remain elevated reflecting strong underlying demand and production constraints.

Gold and coal also fell, while copper and iron ore firmed.

Australia: The minutes from the February meeting reiterated recent messaging from the Reserve Bank (RBA). The RBA's forecasts point to an upbeat view of the economic outlook. While inflation pressures heat up, the RBA continues to underscore "patience" due to uncertainty over the path of wages.

So, what will trigger a rate hike? Well, on several recent occasions, the Governor has actively avoided providing specific guidance. This reflects uncertainty over the outlook, especially with respect to supply disruptions and the behaviour of wages with unemployment at historic lows.

That said, some clues can be gleaned from Friday's parliamentary testimony. The Governor said it would be good to see "another couple of CPIs". The next readings are due in April and July, suggesting August is the earliest window for a rate hike.

While there are uncertainties over how economic conditions will play out over the coming year, the case for rates hikes has grown materially. We continue to expect the rate hike cycle will kick off with a 15 basis point move in August, although there is a growing risk of an earlier move.

We see the earliest live window as June, when there will have been two more wages prints, since inertia in wages appears to be a primary concern for the RBA. Indeed, interest-rate markets are fully priced for a rate hike in June.

Eurozone: Preliminary figures report that GDP grew by 0.3% in the December quarter. The result follows a 2.3% surge in output over the September quarter. Annual GDP growth rose 4.6% from 3.9%.

Employment lifted 0.5% in the December quarter, the third consecutive quarter of employment growth. Total employment has now surpassed pre-COVID levels and is up 2.1% on a year earlier.

The euro area recorded its largest trade deficit since 2008 in December. The trade deficit widened to €9.7bn, from a revised €1.8bn in November.

German investor confidence picked up in February, alongside growing expectations of easing virus restrictions. The ZEW expectations index jumped to 54.3, from 51.7 in January. The measure for current conditions also improved, lifting to -8.1 in February from -10.2 in January.

Japan: GDP growth returned to positive territory in the December quarter, despite falling short of market expectations. Preliminary figures show output expanded 1.3% in the December quarter, improving on a 0.9% contraction in the September quarter. Output growth was underpinned by strong consumption, following the easing of virus curbs.

Industrial production in December was unchanged at final figures. Production declined 1.0% over the month, following a record 7.0% rise in November.

New Zealand: Net migration fell to an outflow of 539 in December, following a revised migration outflow of 28 in November. Over the 2021 calendar year, New Zealand recorded a net migration outflow of 3,915 people, compared to an inflow of 36,850 people in 2020.

United Kingdom: The ILO unemployment rate was unchanged at 4.1% in December. The monthly figure is trending down towards the record low of 3.8% recorded in 2019.

Meanwhile, wage pressures continue to build. Average weekly earnings climbed 4.3% in the 3 months to December.

United States: Annual producer price inflation remained hot at 9.7% in January, beating market expectations of 9.1%, and edging down slightly from the record high of 9.8% in December. The producer price index (PPI) jumped 1.0% in January, following a revised 0.4% rise in December. Producer price pressures were broad-based. Indeed, the PPI increased 0.8% when excluding volatile food and energy items. The January results provide further credence to calls for more aggressive tightening from the US Federal Reserve, which is widely expected to begin raising rates in March.

The New York Fed empire manufacturing index lifted to +3.1 in February, well short of consensus expectations of +12. The result follows a reading of -0.7 in January.

World: Vladimir Putin announced the partial withdrawal of troops massed near the Ukraine border overnight, although the reports are yet to be confirmed. Putin called for a diplomatic resolution however, warned that Moscow will no wait forever for the US and it's allies to address its demands.

Today's key data and events:

US Total Net TIC flows Dec prev $223.9bn (8am)
AU WBC Leading Index Jan prev -0.03% (10:30am)
CH PPI Jan y/y exp 9.5% prev 10.3% (12:30pm)
CH CPI Jan y/y exp 1.0% prev 1.5% (12:30pm)
UK CPI Jan exp -0.2% prev 0.5% (6pm)
EZ Industrial Production Dec exp 0.3% prev 2.3% (9pm)
US Retail Sales Jan exp 2.0% prev -1.9% (12:30am)
US Import Price Index Jan exp 1.2% prev -0.2% (12:30am)
US Export Price Index Jan exp 1.2% prev -1.8% (12:30am)
US Indust. Production Jan exp 0.5% prev -0.1% (1:15am)
US Business Inventories Dec exp 2.1% prev 1.3% (2am)
US NAHB Housing Market Index Feb exp 82 prev 83 (2am)
US FOMC Meeting Minutes Jan 26 (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.

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