

Wednesday, 16 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,097	-0.7%			Last	Overnight Chg		Australia			
US Dow Jones	33,544	1.8%	10 yr bond		97.43	0.01		90 day BBSW	0.15	0.00	
Japan Nikkei	25,346	0.2%	3 yr bond		97.93	0.03		2 year bond	1.34	0.00	
China Shanghai	3,211	-5.0%	3 mth bill rate		99.45	0.01		3 year bond	1.86	0.02	
German DAX	13,917	-0.1%	SPI 200		7,138.0	41		3 year swap	2.11	-0.05	
UK FTSE100	7,176	-0.2%	FX Last 24 hrs		Open	High	Low	Current	10 year bond	2.52	0.07
Commodities (close & change)*			TWI		61.8	-	-	61.3	United States		
CRB Index	281.3	-7.1	AUD/USD		0.7195	0.7227	0.7165	0.7195	3-month T Bill	0.43	-0.02
Gold	1,917.94	#VALUE!	AUD/JPY		85.04	85.37	84.60	85.11	2 year bond	1.85	-0.01
Copper	9,895.00	-29.5	AUD/GBP		0.5533	0.5542	0.5502	0.5516	10 year bond	2.14	0.01
Oil (WTI futures)	95.01	-8.0	AUD/NZD		1.0662	1.0687	1.0625	1.0627	Other (10 year yields)		
Coal (thermal)	346.00	-15.8	AUD/EUR		0.6572	0.6588	0.6525	0.6567	Germany	0.33	-0.04
Coal (coking)	634.50	-0.5	AUD/CNH		4.6033	4.6239	4.5854	4.5925	Japan	0.21	0.01
Iron Ore	142.20	4.5	USD Index		99.07	99.20	98.64	99.03	UK	1.58	-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: Markets are focussed on the meeting of the US Federal Reserve Open Market Committee, which is underway. A rate hike is widely expected to be handed down tomorrow – the first since 2018.

In other developments, oil prices fell under US\$94 a barrel on hopes of a revived Iran deal and the ZEW survey in Europe suggests there is a strong risk of a downturn.

Share Markets: US share markets rallied, as crude oil prices tumbled and ahead of a US Federal Reserve decision early tomorrow morning (AEDT). All three major indices rose by more than 1%. The Nasdaq index led the way.

The latest BofA global fund manager survey revealed that most investors expect global stocks to slump into a bear market this year as the growth outlook has fallen to the lowest level since the GFC. While cash levels surged to the highest since April 2020, allocation to commodities jumped to a record and exposure to equities fell to the lowest in almost two years. Stagflation expectations jumped to 62% of responses.

Interest Rates: US Treasuries ended mixed with the yield curve steeper ahead of the Fed's decision, which is likely to be a rate hike of 25 basis points. The decision will be revealed 5am tomorrow AEDT. The US 2-year yield closed 1 basis point lower whilst the 10-year yield finished 1 basis point firmer.

The Australian 3-year government bond yield (futures) ranged between 2.04% and 2.10%, while the 10-year yield ranged between 2.52% and 2.57%. The first RBA rate hike remains fully priced for June 2022.

Foreign Exchange: The USD index appreciated overnight, lifting from a low of 98.64 to a high of 99.20.

The AUD/USD traded within a tight range of 0.7165-0.7227. It was higher in the European session but then lost its gains in New York. The AUD is likely to tread water ahead of the Fed's decision tomorrow morning.

A big mover was the euro. It was sold off heavily after the weak ZEW data. EUR/USD fell from an overnight high of 1.1020 to an overnight low of 1.0926, which helped AUD/EUR rise to near the 0.6580 handle.

Commodities: Renewed hopes about a revived Iran deal deflated oil prices after Russia's Foreign Minister Sergei Lavrov said sanctions on his country won't affect the Iranian pact. The West Texas Intermediate futures price fell below US\$94 a barrel before closing just above US\$95 a barrel. It is the lowest close since 28 February. Oil has shed more than 20% in a tumultuous past week of trading that's seen wild price fluctuations and heightened volatility.

Australia: The Reserve Bank (RBA) left policy

settings unchanged at the March meeting, as widely expected. The minutes were released yesterday. The most significant development in the lead up to the meeting was the emergence of the devastating Ukraine war.

The RBA acknowledged Russia's invasion is an "adverse supply shock that would result in lower growth and higher inflation". However, the economic impact will depend on the "scale and duration of the conflict" and the extent of any second-round effects.

The minutes note the Australian economy was resilient throughout the Omicron outbreak and had strong momentum ahead of the temporary disruption. The RBA understands activity and hours worked began to recover from late January as case numbers declined.

Russia's invasion complicates the job of policymakers. The disruption to energy markets will weigh on global growth and push up inflation, materially increasing the risk of stagflation. Policymakers will need to balance supporting economic activity and taming inflation.

We continue to expect that the RBA will commence the hiking cycle in August. However, we cannot fully rule out a move earlier in June or July, particularly in the context of the additional inflationary pressures underpinned by the Ukraine conflict.

The ABS dwelling price index jumped 4.7% over the December quarter, following a 6.0% quarterly rise in the September quarter. The result takes the annual pace of growth to 23.7%, the fastest on record going back to 2004.

China: Industrial production rose 7.5% over the year to February - the slowest growth in production since December of 2020. The result follows a 9.6% annual increase in January.

Eurozone: March's ZEW indicator of economic sentiment for Germany fell more sharply than ever before. The indicator plummeted 93.6 points to a current value of minus 39.3 points. It's the biggest drop in expectations since the survey began in late 1991. By comparison, the indicator experienced a decline of 58.2 points at the beginning of the COVID-19 pandemic in March 2020.

The assessment of the economic situation in Germany has also worsened in the current survey. The corresponding indicator dropped 13.3 points to a level of minus 21.4 points. The data suggests a slowdown in Germany's economy will soon be underway. Expectations for the inflation rate in Germany jump by 107.7 points to a new value of

70.2 points.

The ZEW President stated after the survey's release that a recession in Germany is becoming more likely and that the collapsing economic expectations are accompanied by an extreme rise in inflation expectations.

Industrial production in the eurozone region was unchanged in January, after a 1.3% rise in December. Forthcoming data is likely to be weaker, reflecting the softer ZEW survey.

United Kingdom: The UK employment report for January exceeded consensus expectations. The number of unemployed persons fell by 48.1k, the unemployment rate dropped from 4.1% to 3.9% (vs 4.0% expected) and wage growth rose to 4.8%, up from 4.6% (and vs 4.6% expected).

United States: The Fed's two-day policy meeting has begun. A decision will be revealed at 5am AEDT. The Fed is widely expected to raise the target for the fed funds rate by 25 basis points, its first rate hike since 2018.

A more aggressive hike of 50 basis points is seen as less likely, following hints from Fed Chair Jerome Powell at his Congressional testimony a couple of weeks back. The sharp drop in oil prices in the last couple of days has also likely lengthened the odds considerably of a hike of 50 basis points.

In terms of data, the Federal Reserve Bank of New York's Empire State manufacturing index declined to -11.8 in March, from 3.1 in February. This print missed the market expectation of 7.25 by a wide margin. The decline in business activity was the first fall since early in the pandemic. The new orders component was notably weak. The prices paid index remained very elevated, and the prices received index reached yet another record high.

The final outcome for the producer price index for February was revised higher, from 9.7% annual growth to 10.0%.

Russia & Ukraine: The leaders of Poland, the Czech Republic and Slovenia travelled to Kyiv for talks with Ukraine's President as Russia stepped up its bombardment of Ukraine's besieged capital. Talks between the two sides resumed to discuss a possible cease-fire, but Vladimir Putin said Ukraine isn't being "serious" about resolving the war.

The European Union extended its sanctions list and also imposed a ban on exports of luxury goods to Russia.

Today's key data and events:

US Total Net TIC Flows Jan prev -\$52.4bn (7am)
NZ Current Acct Q4 exp -\$6.2bn prev -\$8.3bn (8:45am)
AU WBC Leading Index Feb prev 0.13% (10:30am)
JN Industrial Production Jan Final (3:30pm)
US Retail Sales Feb exp 0.4% prev 3.8% (11:30pm)
US Import Price Index Feb exp 1.6% prev 2.0% (11:30pm)
US Export Price Index Feb exp 1.2% prev 2.9% (11:30pm)
US Business Inventories Jan exp 1.1% prev 2.1% (1am)
US NAHB Housing Mkt Index Mar exp 81 prev 82 (1am)
US FOMC Meeting Decision (5am)
Federal Funds Rate exp 0.25%-0.50% prev 0.00%-0.25%

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.

Besa Deda, Chief Economist

Ph: (02) 8254 3251

Contact Listing

Chief Economist

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

Economist

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

Senior Economist

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

Associate Economist

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

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
