Morning report

Thursday, 17 February 2022

Equities (close & % change)		
S&P/ASX 200	7,285	1.1%
US Dow Jones	34,934	-0.2%
Japan Nikkei	27,460	2.2%
China Shanghai	3,632	0.6%
German DAX	15,370	-0.3%
UK FTSE100	7,604	-0.1%
Commodities (close & change)*		
CRB Index	265.3	3.2
Gold	1,869.80	16.2
Copper	10,003.50	40.0
Oil (WTI futures)	93.66	1.6
Coal (thermal)	184.50	-5.5
Coal (coking)	434.00	2.0
Iron Ore	136.10	-4.1

Sydney Futures Exchange (close & change)				
	Last		**Overnight Chg**	
10 yr bond	97.76		0.00	
3 yr bond	98.30		0.00	
3 mth bill rate	99.88		0.00	
SPI 200	7,206.0		3	
FX Last 24 hrs	Open	High	Low	Current
TWI	60.1	-	-	60.2
AUD/USD	0.7153	0.7205	0.7144	0.7194
AUD/JPY	82.71	83.18	82.63	83.08
AUD/GBP	0.5284	0.5299	0.5276	0.5296
AUD/NZD	1.0776	1.0797	1.0755	1.0767
AUD/EUR	0.6296	0.6328	0.6292	0.6325
AUD/CNH	4.5329	4.5614	4.5296	4.5559
USD Index	95.98	96.06	95.68	95.81

Interest rates (close & change)		
Australia		
90 day BBSW	0.08	0.00
2 year bond	1.22	0.00
3 year bond	1.66	0.00
3 year swap	1.91	0.01
10 year bond	2.24	0.00
United States		
3-month T Bill	0.36	-0.04
2 year bond	1.52	-0.06
10 year bond	2.04	-0.01
Other (10 year yields)		
Germany	0.28	-0.03
Japan	0.22	0.00
UK	1.52	-0.06

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: The minutes from the Fed's January meeting were viewed as more dovish than expected. They noted that inflation was high and policy tightening was warranted soon. However, there was a lack of detail around the pace of increases or the runoff of the balance sheet. Equity markets rallied towards the end of the session, bond yields fell, and the US dollar weakened.

Share Markets: Equity markets rallied towards the end of the day as the minutes from the Fed were viewed as more dovish than expected.

The S&P 500 closed 0.1% higher, after being down as much as 0.9% during trading. The Nasdaq also rallied towards the end of the day but closed down 0.1% and the Dow Jones fell 0.2%.

Interest Rates: Bond yields pulled back in line with the dovish view of the minutes.

The US 2-year treasury yield fell 6 basis points to 1.52%. The US 10-year yield declined by 1 basis point to 2.04.

The Australian 3-year government bond yield (futures) fell were broadly unchanged at 1.71%. The 10-year government bond yield (futures) were also broadly unchanged at 2.25%.

Foreign Exchange: The US dollar was weaker against a basket of major currencies. The USD Index fell from a high of 96.06 to a low of 95.68, before pulling back to trade around 95.81 at the time of writing.

The AUD/USD pair advanced over the trading day. The pair rose from a low of 0.7144 to a high of 0.7205. It is currently trading near that high at 0.7194.

Commodities: Oil prices increased as the US Energy Information Administration (EIA) reported that crude inventories at Cushing had fallen to their lowest levels since September 2018. Iron ore was weaker, while gold and copper both rose.

Australia: The six-month annualised growth rate in the Westpac-Melbourne Institute leading index jumped to 0.4% in January, from -0.1% in December. This is the first time since the Delta lockdown that the index growth rate has entered positive territory and signals above-trend economic growth over the next three to nine months.

China: Inflation pressures eased in January, despite recent expansionary policy changes from the Peoples Bank of China (PBOC). The result gives the central bank more leeway to ease policy settings and stimulate the slowing economy.

The producer price index (PPI) increased by 9.1% in the year to January. This is down from a 10.3% annual increase in January and below consensus expectations of a 9.5% rise.

Consumer price inflation also slowed. The consumer price index (CPI) jumped 0.9% over the year to January, down from a 1.5% increase over the year to December.

Eurozone: Industrial production exceeded market expectations in December. Production increased 1.2% over the month, compared to the consensus estimate of a 0.3% rise. The result follows a revised 2.4% increase in November. Industrial production is 1.6% higher in annual terms.

United Kingdom: Inflation data surprised to the upside in January. The Consumer Price Index (CPI) jumped 5.5% over the year to January – the fastest annual pace of inflation since March 1992. However, the CPI pulled back 0.1% over the month of January, providing some indication that inflation pressures may be slowing.

Core CPI, which excludes volatile items such as food and energy, increased by 4.4% over the year to January. This is up from a 4.2% annual rise in December and is the fastest annual pace since May 1992.

Produce prices also rose in January. The Producer Price Index (PPI) jumped 1.2% in January, following a 0.3% rise in December. In annual terms, producer prices surged 9.9% in January, up from 9.3% in December. Producer prices increased at their fastest annual pace since September 2008.

The strong inflation print will lend further support to calls for the Bank of England to hike rates further at their next meeting in March.

United States: US retail sales rose 3.8% in January, the most in 10 months and beating estimates. This follows a 2.5% drop in December. The biggest gains were amongst non-store retailers, furniture and autos.

Industrial production increased 1.4% and manufacturing output edged up 0.2%, both bouncing off negative readings. It suggests manufacturers are gradually working through labour and materials shortages which have crimped output in recent months.

Business inventories rose 2.1% in December, in line with expectations, following a 1.3% gain in November.

The NAHB homebuilder index came in at 82 in February, slipping from 83 in January, and hitting a four-month low. Higher labour and supply costs in combination with rising interest rates have hit affordability and dampened the outlook for sales.

The minutes from the Federal Open Markets Committee January meeting showed officials concluded inflation was running too hot, warranting a rate hike soon and potentially faster tightening. However, the minutes were viewed as more dovish than expected, in part due to them not covering the pace of increases or balance sheet run off. The committee did note that it expects reducing the size of the balance sheet will commence after rate hikes have begun. Markets are fully priced for a hike in March, with some betting the Fed could move by 50 basis points.

Today's key data and events:

AU Labour Force Jan (11:30am)
Employment Change exp 30.0k. prev 64.8k
Participation Rate exp 66.1% prev 66.1%
Unemployment Rate exp 4.0% prev 4.2%
JN Machinery Orders Dec exp -2.0% prev 3.4% (10:50am)
US Housing Starts Jan exp -0.4% prev 1.4% (12:30am)
US Philad. Fed Index Feb exp 20.0 prev 23.2 (12:30am)
US Building Permits Jan exp -7.2% prev 9.8% (12:30am)

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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