

Thursday, 17 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,175	1.1%			Last	Overnight Chg		Australia		
US Dow Jones	34,063	1.5%	10 yr bond	97.42				90 day BBSW	0.15	0.00
Japan Nikkei	25,762	1.6%	3 yr bond	97.90				2 year bond	1.29	-0.04
China Shanghai	3,323	3.5%	3 mth bill rate	99.47				3 year bond	1.81	-0.05
German DAX	14,441	3.8%	SPI 200	7,290.0		106		3 year swap	2.10	-0.01
UK FTSE100	7,292	1.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.50	-0.02
Commodities (close & change)*			TWI	61.3	-	-	61.4	United States		
CRB Index	280.6	-0.8	AUD/USD	0.7195	0.7297	0.7181	0.7290	3-month T Bill	0.38	-0.08
Gold	1,927.29	9.3	AUD/JPY	85.11	86.62	85.02	86.56	2 year bond	1.94	0.09
Copper	9,895.00	-29.5	AUD/GBP	0.5516	0.5554	0.5506	0.5544	10 year bond	2.18	0.04
Oil (WTI futures)	95.29	-1.1	AUD/NZD	1.0627	1.0666	1.0615	1.0662	Other (10 year yields)		
Coal (thermal)	235.85	-40.8	AUD/EUR	0.6567	0.6610	0.6553	0.6606	Germany	0.39	0.06
Coal (coking)	628.00	-6.5	AUD/CNH	4.5925	4.6413	4.5886	4.6390	Japan	0.21	0.01
Iron Ore	151.00	1.8	USD Index	99.03	99.08	98.30	98.37	UK	1.63	0.05

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: Hopeful news from the Ukraine conflict boosted optimism in markets, while the US Federal Reserve raised rates for the first time since 2018, as widely expected. Major market equities and bond yields rose, and the safe-haven US dollar declined.

Share Markets: Stocks ended the session higher, bolstered by encouraging news on the Ukraine war, after dipping briefly on the Fed decision. The Dow rose 1.5% and the S&P 500 was up 2.2%.

The ASX 200 rose 1.1% and futures point to a strong open.

Interest Rates: US bond yields moved higher and the yield curve flattened following the Fed's decision. The 2-year treasury yield rose 9 basis points to 1.94% while the 10-year yield was up 4 basis points to 2.18%.

Markets are priced for the Fed to hike 25 basis points at the May meeting. Including the May meeting, a total of six further hikes are priced in for the remainder of 2022.

Australian 2-year (futures) yields rose 10 basis points to 2.11% while 10-year futures yields increase 2 basis points to 2.59%.

Markets remain fully priced for the Reserve Bank to hike the cash rate 15-basis points in June.

Foreign Exchange: The AUD/USD pair rose from 0.7195 to 0.7290, alongside a weaker US dollar.

Commodities: The price of WTI crude oil continued

to slide and is currently sitting at \$95 – around its lowest level since late February – as Libya urged OPEC+ to increase supply faster.

Australia: Pressure on the construction industry is growing with the collapse of Queensland mid-tier builder Condev. Administrators were appointed on Wednesday to manage the wind-down of the builder. This follows the collapse of construction giant Probuild last month. The developments have increased pressure on the subcontracting sector which faces thin margins as surging material costs weigh on the sector.

The six-month annualised growth rate in the Westpac-Melbourne Institute leading index lifted to -0.25% in February, from a revised reading of -0.50% in January.

Japan: A strong earthquake hit northern Japan near Fukushima, triggering a tsunami warning. The full-scale of the damage is not clear yet, although there are reports of “many” injuries.

Industrial production was finalised at -0.8% in January, up from a preliminary read of -1.3%. The result follows a 1.0% decline in December, after a record 7.0% jump in November.

New Zealand: The current account deficit narrowed to \$7.3bn in the December quarter, following a record \$8.3bn deficit in the September quarter. The result fell short of market expectations of a \$6.2bn deficit.

United States: The Federal Open Markets Committee (FOMC) lifted rates by 25 basis points, as expected, marking the first increase since 2018. The FOMC voted 8-1 in favour of the decision. St Louis President Bullard dissented in favour of a 50-basis point hike. In the dot plot, members' median projection was for the benchmark rate to reach around 1.9% by the end of 2022 – sharply higher than previously indicated but broadly in line with market pricing. The projections point to the rate reaching 2.8% in 2023. Powell also signalled that a 50-basis point rate hike remains a possibility, noting “every meeting is a live meeting”.

The central bank pledged to begin shrinking the Fed's balance sheet at a “coming meeting”, Powell indicating an announcement could come as soon as May.

The Fed revised up its inflation forecast while the GDP projection was cut back. Core PCE inflation is expected to remain at 4.1% over 2022 (previously 2.7%) before easing to 2.6% in 2023. Meanwhile, the GDP growth forecast was cut to 2.8% for 2022 (previously 4.0%). The statement acknowledged the economic implications of Russia's invasion of Ukraine are “highly uncertain” but in the near term it is likely to “create additional upwards pressure on inflation and weigh on economic activity”.

US retail sales were stronger than expected in February after incorporating upwards revisions to January's already strong result. Sales rose 0.3% in February, while growth in January was revised up to 4.9% from 3.8%. However, the core measure fell 1.2% in the month, perhaps reflecting the impact of higher petrol prices.

Homebuilder sentiment fell to its lowest level in six months, although remains elevated, according to the NAHB housing market index. The gauge fell to 79 in February, from 81 in January. Soaring materials prices and labour shortages have weighed on homebuilders. There are growing concerns over affordability, inflation and rate hikes.

Business inventories rose 1.1% in January, as expected, following 2.1% growth in December.

Russia & Ukraine: There were some signs of progress in negotiations with the Kremlin's Peskov stating that a proposal for Ukraine to become a neutral country but retaining its own armed forces could be a compromise. Ukrainian President Zelenskyy said that Russia's positions “sound more realistic”.

Today's key data and events:

NZ GDP Q4 exp 3.3% prev -3.7% (8:45am)
 JN Machinery Orders Jan exp -2.0% prev 3.6% (10:50am)
 AU Labour Force Feb (11:30am)
 Employment Change exp 60k prev 12.9k
 Unemployment Rate exp 4.1% prev 4.2%
 Participation Rate exp 66.4% prev 66.2%
 EZ CPI Feb Final exp 0.9% prev 0.9% (6pm)
 UK BoE Policy Meeting (11pm)
 Bank Rate exp 0.75% prev 0.50%
 US Housing Starts Feb exp 3.8% prev -4.1% (11:30pm)
 US Building Permits Feb exp -2.4% prev 0.5% (11:30pm)
 US Philadelphia Fed Index Mar exp 15 prev 16 (11:30pm)
 US Indust. Production Feb exp 0.5% prev 1.4% (12:15am)

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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