

Friday, 18 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,296	0.2%			Last	Overnight Chg		Australia		
US Dow Jones	34,311	-1.8%	10 yr bond	97.81		0.03	90 day BBSW	0.08	0.00	
Japan Nikkei	27,233	-0.8%	3 yr bond	98.35		0.02	2 year bond	1.18	-0.05	
China Shanghai	3,635	0.1%	3 mth bill rate	99.88		-0.01	3 year bond	1.62	-0.03	
German DAX	15,268	-0.7%	SPI 200	7,144.0		-69	3 year swap	1.85	-0.05	
UK FTSE100	7,537	-0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.21	-0.03
Commodities (close & change)*			TWI	60.2	-	-	60.3	United States		
CRB Index	263.7	-1.6	AUD/USD	0.7194	0.7217	0.7150	0.7191	3-month T Bill	0.34	-0.04
Gold	1,898.22	28.4	AUD/JPY	83.08	83.34	82.34	82.64	2 year bond	1.47	-0.05
Copper	9,967.00	-62.8	AUD/GBP	0.5296	0.5309	0.5274	0.5281	10 year bond	1.96	-0.08
Oil (WTI futures)	91.75	-1.9	AUD/NZD	1.0767	1.0775	1.0728	1.0745	Other (10 year yields)		
Coal (thermal)	152.50	-3.3	AUD/EUR	0.6325	0.6346	0.6310	0.6330	Germany	0.23	-0.05
Coal (coking)	434.00	0.0	AUD/CNH	4.5559	4.5712	4.5317	4.5547	Japan	0.23	0.01
Iron Ore	125.30	-6.3	USD Index	95.81	96.11	95.71	95.82	UK	1.46	-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: Risk sentiment deteriorated overnight as investors continued to mull the prospects of conflict on the Ukraine border and Fed policy tightening. Bond prices rallied and yields fell, alongside a rotation towards risk-off assets. Equity markets declined, while gold hit an 8-month high.

Share Markets: Weaker market sentiment drove a sell-off in equities overnight. The NASDAQ closed down 2.9%, while the S&P 500 and Dow Jones lost 2.1% and 1.8%, respectively.

The ASX 200 gained 0.2% in yesterday's trade. Futures are pointing to a weak open this morning.

Interest Rates: Bond prices rallied and yields fell as investor tilted towards safe-haven assets. The US 2-year treasury yield shed 5 basis points to 1.47%. The 10-year treasury yield dropped 8 basis points to 1.96%.

The Australian 3-year government bond (futures) yield fell from a high of 1.71% to a low of 1.65%, while the 10-year (futures) yield dropped from 2.27% to 2.20%.

Futures markets continue to price a 15 basis point rate hike from the RBA in June.

Foreign Exchange: The AUD/USD pair jumped from a low of 0.7150 to a one-week high of 0.7217, before consolidating around 0.7191.

The US dollar strengthened overnight, hitting an intra-day high of 96.11 before retracing to 95.82.

Commodities: Oil traded lower and lost 1.9%.

However, the futures curve continues to indicate an extremely tight market. Contracts for earlier delivery are trading at a large premium to those for delivery further into the future.

Gold hit an 8-month high, briefly surpassing US\$1,900 an ounce for the first time since June. Iron ore softened following measures by China to cool prices. Copper was also down.

Australia: The Omicron wave led businesses to slash the hours staff worked, rather than cut headcount.

The unemployment rate stayed around a 12-year low of 4.2%, but hours worked plunged 8.8% in January – the second largest fall on record.

A much larger than usual number of workers took annual or sick leave in January, because they were infected by COVID-19 or forced to isolate as a close contact.

The participation rate rose by 0.1 percentage points, to 66.2%, just shy of the March 2021 record of 66.3%. Encouragingly, the participation rate among women also increased, to a record of high of 62.1%.

Total employment increased by 12.9k in January after a strong employment gain of 64.8k in December and a record 366.1k rise in November. The increase in January drove employment to its highest level on record for a third straight month.

The labour market outlook remains strong. Following the short-term recovery in hours worked,

we expect the labour market to continue to tighten, pushing the unemployment rate below 4%, a level around or under full employment, by the end of 2022.

Japan: Core machinery orders jumped 3.6% in December, beating consensus estimates of a 2.0% fall. The result follows a 3.4% rise in orders over November and is the third consecutive monthly increase in core machinery orders.

United States: New home construction dropped in January, for the first time in four months. Housing starts fell 4.1% in January, following a revised 0.3% rise in February. Surging materials costs and labour shortages continue to weigh on new construction, while freezing weather conditions contributed to the fall over January.

Building permits continued to grow, despite the decline in new home construction starts. Building permits increased 0.7% in January, following a 9.8% surge in December. Building applications are at the highest annualized level since 2006, as housing demand continues to outstrip supply.

Manufacturing activity grew at a slower pace in February, according to the Philadelphia Fed index. The index fell to 16.0 in February, from 23.2 in January. The detail suggests that businesses expect supply chains issues and price pressures to improve this year.

James Bullard, President of the St Louis Fed branch, flagged that inflation risks remain high. Bullard continues to call for a front-loaded policy response, favouring 100 basis points of rate hikes over the first half of 2022. He also favours a commencement of balance sheet reduction in Q2.

World: Russia rejected claims it has bolstered the presence of troops along the Ukraine border and reiterated it has no plans to invade. Meanwhile, President Biden continues to warn that the probability of Russian invasion is 'very high'.

Today's key data and events:

NZ PPI Q4 prev 1.8% (8:45am)

JN CPI Jan y/y exp 0.6% prev 0.8% (10:30am)

UK Retail Sales Jan exp 1.2% prev -3.7% (6pm)

US Existing Home Sales Jan exp -1.3% prev -4.6% (2am)

US Leading Index Jan exp 0.2% prev 0.8% (2am)

EZ Consumer Confidence Feb exp -8.0 prev -8.5 (2am)

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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The Detail

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