Morning report

Friday, 18 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,251	1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	34,481	1.2%	10 yr bond	97.38		-0.05		90 day BBSW	0.16	0.01
Japan Nikkei	26,653	3.5%	3 yr bond	97.84		-0.06		2 year bond	1.34	0.04
China Shanghai	3,370	1.4%	3 mth bill rate	99.46		0.00		3 year bond	1.87	0.06
German DAX	14,388	-0.4%	SPI 200	7,255.0		37		3 year swap	2.17	0.00
UK FTSE100	7,385	1.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.51	0.01
Commodities (close & change)*			TWI	61.4	-	-	62.2	**United States**		
CRB Index	290.7	10.2	AUD/USD	0.7289	0.7393	0.7283	0.7374	3-month T Bill	0.37	-0.04
Gold	1,942.89	15.6	AUD/JPY	86.57	87.59	86.49	87.47	2 year bond	1.91	-0.02
Copper	10,251.50	182.5	AUD/GBP	0.5542	0.5619	0.5540	0.5608	10 year bond	2.17	-0.01
Oil (WTI futures)	103.61	8.6	AUD/NZD	1.0662	1.0722	1.0656	1.0715	**Other (10 year yields)**		
Coal (thermal)	231.95	-12.2	AUD/EUR	0.6605	0.6654	0.6603	0.6647	Germany	0.39	-0.01
Coal (coking)	627.50	-0.5	AUD/CNH	4.6382	4.7013	4.6343	4.6926	Japan	0.21	-0.01
Iron Ore	152.55	2.6	USD Index	98.38	98.51	97.73	98.02	UK	1.57	-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: There was some modest improvement in risk appetites overnight, although volatility remained elevated. Global share markets finished in the black. US data was mostly stronger than expected. And oil moved back above US$100 a barrel. The Bank of England hiked as widely expected but was less hawkish than expected in its statement, driving the pound and UK yields sharply lower.

Share Markets: US share markets climbed in volatile trading, as investors weighed geopolitical developments. After earlier vacillating, the S&P 500 rebounded amid optimism Russia may not default on bond payments. At the close, the S&P 500 was 1.2% higher and the Dow was also 1.2% firmer.

Interest Rates: US Treasury yields ended lower, despite an improvement in risk appetites overnight. The US 2-year yield fell 2 basis points to 1.91% and the 10-year yield edged down 1 basis point to 2.17%. In the previous night's session these yields had reached (intraday) their highest levels since May 2019 at 2.00% and 2.24%, respectively.

In the UK, the 10-year yield to drop 6 basis points at the close after the Bank of England (BoE) raised interest rates for a third meeting running, as expected, but softened its language on the need for further increases from here.

Foreign Exchange: The USD was weaker against the G-10 currencies with the USD index falling from an overnight high of 98.4 to an overnight low near 97.7, before recovering near the 98.0 handle.

One of the biggest movers overnight was the GBP. Ahead of the BoE rate decision, GBP/USD was at its overnight high of 1.3215. The decision and less than hawkish BoE statement sent the GBP sharply lower to 1.3088 before it recovered to the 1.3150 handle; the pound weakened as traders removed bets on a single 50-basis-point rate hike by June. AUD/USD jumped from an overnight low of 0.5540 to an 8-day high near 0.5620.

The AUD continued to climb, fuelled by the strong job gains yesterday for February. Since the jobs report the AUD has added nearly 1 US cent to rise to an overnight high of 0.7377. Resistance sits at 0.7440 and the AUD/USD is likely to try to make a test of this level in the short term.

Commodities: Oil rose above US$100 a barrel again after trading below the level for the past two days. The risk is that oil prices will move higher because of tight oil supply and the difficulty in replacing lost supply from Russia.

The London Metals Exchange (LME) increased its nickel trading limit to 12% for Friday following another day of glitches, including trades at Thursday's 8% lower limit being rejected and cancelled.

Australia: A string of jobs records were smashed yesterday, reflecting an ongoing tightening of the labour market.

Hours worked bounced 8.9% in February, a record-sized rebound from the hit in January, as COVID-19 case numbers declined.

Employment rose a whopping 77.4k in the month, driven by the second highest spike in full-time jobs on record of nearly 122k and growth in NSW. Indeed, the unemployment rate in NSW was the lowest on record (since the data goes back to the 1970s).

The unemployment rate fell to 4.0% – the lowest rate in 13½ years. In fact, Australia has not had an unemployment rate lower than 4.0% since 1974!

In another sign of a healthy jobs market, the participation rate increased by 0.2 percentage points to an all-time high of 66.4%, which included a notable lift in the female participation rate to a record high.

Labour market demand remains robust and the impact of the Omicron disruptions appears to have been short-lived. Leading indicators suggest the labour market will continue to tighten over the coming months. Many businesses are continuing to struggle with labour shortages.

We expect the unemployment rate will fall below 4.0% in coming months. The Reserve Banks has indicated full employment is consistent with an unemployment rate around the high 3s or low 4s. The jobless rate is now well into this territory. Given this, we expect wage pressures will build more materially, shortening the odds shorten for an August rate hike, or possibly sooner.

Eurozone: The final consumer price index (CPI) for for February was reported to be slightly higher at 5.9% year-on-year. This outcome is up from 5.8% year-on-year previously. The core inflation rate was left unrevised at annual growth of 2.7%.

New Zealand: New Zealand's economy grew less than economists expected in the December quarter of 2021, as it recovered from a contraction caused by a lockdown in largest city Auckland.

Gross domestic product (GDP) rose 3.0% from the third quarter, when it fell a revised 3.6% (previously reported as a fall of 3.7%). The consensus among economists was for a stronger rise of 3.3%.

From a year ago, the economy expanded 3.1%.

While an omicron wave has taken hold and there is global geopolitical uncertainty, the Reserve Bank of New Zealand (RBNZ) has signalled it needs to tighten monetary policy further. This weaker-than-expected GDP outcome is unlikely to deviate the RBNZ from this path.

Russia & Ukraine: US President Joe Biden and China's President Xi Jinping will speak about Russia later today.

United Kingdom: The UK's Monetary Policy Committee (MPC) raised rates by 25 basis points to 0.75%, but BOE's Deputy Governor Jon Cunliffe voted to stand pat. The central bank said more tightening "might be" appropriate in coming months, compared with last month's comment that it was "likely."

Officials warned that the war may push inflation well above 8%.

United States: The Philadelphia Federal Reserve's index for current general activity rose 11 points to 27.4 this month, its highest point in 4 months. The result was well above market expectations. A level above zero in the index indicates improving conditions, while anything below indicates worsening conditions.

Firms continued to report increases in employment. The employment index rose to a record of 38.9.

Industrial production rose 0.5% in February, in line with the consensus estimate. The manufacturing subset posted a 1.2% gain, above the consensus for a 1.0% advance. The gain would have been larger but for a drag from utilities production (down 2.7%).

New housing construction rebounded in February to the strongest pace since 2006, suggesting builders had greater success navigating material and labour constraints in the month. Residential starts increased 6.8% last month to a 1.77 million annualised rate. Applications to build, a proxy for future construction, eased to an annualised rate of 1.86 million units, although remained elevated.

Today's key data and events:

EZ Labour Costs Q4 y/y prev 2.5% (9pm)

EZ Trade Balance Jan exp -€9.0bn prev -€9.7bn (9pm)

US Existing Home Sales Feb exp -6.2% prev 6.7% (1am)

US Leading Index Feb exp 0.3% prev -0.3% (1am)

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