

Wednesday, 19 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,409	-0.1%			Last	Overnight Chg		Australia		
US Dow Jones	35,364	-1.5%	10 yr bond	97.97				90 day BBSW	0.07	0.00
Japan Nikkei	28,257	-0.3%	3 yr bond	98.60				2 year bond	0.83	0.06
China Shanghai	3,741	0.8%	3 mth bill rate	99.82				3 year bond	1.31	0.04
German DAX	15,773	-1.0%	SPI 200	7,240.0				3 year swap	1.49	0.04
UK FTSE100	7,564	-0.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.95	0.03
Commodities (close & change)*			TWI	60.5	-	-	60.4	United States		
CRB Index	247.1	1.6	AUD/USD	0.7210	0.7228	0.7170	0.7181	3-month T Bill	0.13	0.01
Gold	1,814.22	-5.0	AUD/JPY	82.64	82.96	82.16	82.31	2 year bond	1.04	0.08
Copper	9,691.50	-60.5	AUD/GBP	0.5285	0.5297	0.5267	0.5284	10 year bond	1.88	0.09
Oil (WTI futures)	85.83	2.0	AUD/NZD	1.0614	1.0625	1.0576	1.0611	Other (10 year yields)		
Coal (thermal)	181.85	1.8	AUD/EUR	0.6322	0.6346	0.6300	0.6342	Germany	-0.02	0.01
Coal (coking)	399.00	3.5	AUD/CNH	4.5794	4.5862	4.5582	4.5674	Japan	0.14	-0.01
Iron Ore	130.05	3.1	USD Index	95.26	95.83	95.13	95.78	UK	1.22	0.03

Data as at 8:30am AEDT. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US equity markets tumbled after reopening from the Martin Luther King Jr. holiday. The Dow Jones recorded its biggest daily drop since November of last year. Share markets and bond prices fell on renewed concerns over accelerated US Fed tightening.

Share Markets: US equity markets experienced broad-based falls after reopening from the Martin Luther King Jr. holiday. The tech-heavy NASDAQ led the decline, tumbling 2.6%. The S&P 500 and the Dow Jones dropped 1.8% and 1.5%, respectively. Notably, the Dow posted its biggest daily drop since late November 2021.

The ASX 200 index continued its weak start to the new year, closing down 0.1% in yesterday's trade. Futures are pointing to a soft opening this morning.

Interest Rates: The US 2-year treasury yield jumped 8 basis points to 1.04% - its highest level since February 2020, reflecting market expectations that the Fed will accelerate its rate-hike cycle. The 10-year treasury yield also rose, lifting 9 basis points to 1.88% - its highest level since 9 January 2020

The Australian 3-year government bond yield (futures) traded from a low of 1.37% to a high of 1.41%. The 10-year yield increased from 1.98% to 2.04%.

Interest-rate markets are fully pricing the first RBA rate hike in July 2022, according to interbank cash rate futures. A probability of 98% is attached to a

June 2022 tightening.

Foreign Exchange: The AUD/USD pair dropped to a one-week low of 0.7170 from an overnight high of 0.7228, before consolidating at around the 0.7180 mark.

The US dollar strengthened against a basket of its G10 peers overnight. The DXY index increased from a low of 95.2 to a high of 95.8.

Commodities: Oil prices continued to rise. Brent crude futures hit their highest level since 2014. Gold softened, while iron ore and coal rose.

Australia: There were no major economic data releases yesterday.

Eurozone: Expectations of economic growth in the Eurozone improved in January, however, current conditions weakened as Omicron restrictions weighed. The ZEW expectations index jumped to 49.4, from 26.8 a month earlier. The current conditions index fell to -6.2, from 2.3.

In Germany, growth expectations increased to 51.7 (from 29.9) and current conditions fell (from -7.4) to -10.2.

Japan: The Bank of Japan kept its key policy rate on hold at -0.1% yesterday. The 0.0% yield target on the 10-year government bond was also left unchanged. The central bank's inflation forecasts were revised up, as the economy continues to rebound, however, price pressures remain relatively subdued.

Industrial production surged 7.0% in November, according to final estimates. This monthly increase is the fastest on record. In annual terms, output increased 5.1%, down from a preliminary read of 5.4%.

United Kingdom: Unemployment edged down for a sixth consecutive month in November. The unemployment rate eased to 4.1%, from 4.2% in October. The unemployment rate is at its lowest level since June 2020 and is closing in on the pre-pandemic low of 3.8%.

United States: The New York Fed (Empire) manufacturing index plunged into negative territory in January, dropping 32.6 points to -0.7. This is the first time the index has turned negative since June 2020 and reflects a pull-back in activity driven by surging Omicron cases.

The NAHB housing index eased to 83 in January, down from 84 in December. Sentiment among home builders remains high despite the pull-back. Growing costs of materials and labour shortages are putting upwards pressure on construction prices, which are likely to weigh on housing construction as affordability pressures mount.

Today's key data and events:

US Total Net TIC Flows Nov prev \$143.0bn (8am)
NZ Card Spending Retail Dec Prev 9.6% (8:45am)
AU WBC-MI Cons. Confidence Jan prev 104.3 (10:30am)
UK CPI Dec exp 0.3% prev 0.7% (6pm)
US Housing Starts Dec exp -1.7% prev 11.8% (12:30am)
US Building Permits Dec exp -1.0% prev 3.9% (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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The Detail

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