

Thursday, 19 May 2022



Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,183	1.0%			Last	Overnight Chg		Australia		
US Dow Jones	31,490	-3.6%	10 yr bond	96.64		0.13	90 day BBSW	1.08	0.06	
Japan Nikkei	26,911	0.9%	3 yr bond	97.07		0.08	2 year bond	2.60	0.01	
China Shanghai	3,234	-0.3%	3 mth bill rate	98.65		0.01	3 year bond	2.89	0.02	
German DAX	14,008	-1.3%	SPI 200	7,047.0		-126	3 year swap	3.14	0.00	
UK FTSE100	7,438	-1.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.46	0.05
Commodities (close & change)*			TWI	62.5	-	-	62.6	United States		
CRB Index	309.4	-6.0	AUD/USD	0.7030	0.7047	0.6950	0.6959	3-month T Bill	0.98	-0.07
Gold	1,816.60	1.4	AUD/JPY	90.95	91.17	89.09	89.29	2 year bond	2.67	-0.03
Copper	9,379.50	129.0	AUD/GBP	0.5628	0.5662	0.5611	0.5639	10 year bond	2.88	-0.10
Oil (WTI futures)	109.59	-2.8	AUD/NZD	1.1050	1.1064	1.1022	1.1053	Other (10 year yields)		
Coal (thermal)	380.00	3.8	AUD/EUR	0.6665	0.6678	0.6641	0.6649	Germany	1.03	-0.02
Coal (coking)	510.00	8.5	AUD/CNH	4.7421	4.7521	4.7127	4.7177	Japan	0.25	0.00
Iron Ore	121.80	-3.4	USD Index	103.34	103.93	103.19	103.92	UK	1.87	-0.02

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The US stock market had its worst day since June 2020 following downgrades to company earnings forecasts as elevated inflation pushes up costs. Rate hikes remain front of mind. US yields declined and the US dollar was weaker.

Share Markets: The S&P 500 and Dow had their biggest single-day declines since June 2020, falling 4.0% and 3.6% respectively. The Nasdaq dropped 4.7%.

Consumer discretionary and consumer staples, or retailers, were hit particularly hard after Target and Walmart downgraded their earnings forecasts alongside a surge in cost pressures. Target shares plummeted 25% – their largest one-day decline since Black Monday in October 1987.

Meanwhile, the ASX 200 was up 1.0% but futures point to a weak open.

Interest Rates: The 10-year treasury yield fell 10 basis points to 2.88% while the 2-year yield fell 3 basis points to 2.67%.

Markets are fully priced for the Fed to hike 50 basis points at the next meeting in June.

The Australian 10-year (futures) yield fell 13 basis points to 3.37% while the 3-year futures yield was down 8 basis points to 3.02%.

Foreign Exchange: The AUD/USD declined alongside the deterioration in risk sentiment. The pair fell from 0.7030 to 0.6959, remaining within the range from recent days. The US dollar was weaker.

Commodities: West Texas intermediate crude oil futures and iron ore declined, while copper and gold firmed.

Australia: The Wage Price Index (WPI) rose by 0.7% over the March quarter, matching the quarterly pace set in the December quarter. In annual terms, wages grew by 2.4%, the fastest annual pace since the December quarter 2014. In two-quarter annualised terms, growth hit 2.6%, the highest since March 2014.

The result was weaker than the 0.8% quarterly growth projected by consensus forecasts but won't be enough to stop the Reserve Bank hiking in June, although may mean they lean in favour of a smaller-sized hike.

Wages growth has fallen well short of inflation, meaning households have experienced a reduction in purchasing power. Real wages fell 2.6% over the year to the March quarter of 2022 – the largest fall since the September quarter of 2000, following the introduction of GST.

Wages growth continued to be led by the private sector in the March quarter. Private and public sector wages increased 2.4% and 2.2%, respectively in annual terms.

The Governor has stressed the importance of getting “back to business as usual”. Our core view is for a rate hike of 40 basis points in June, but today's softer wages outcome might mean the odds have

shortened for a more “standard” sized move of 25 basis points next month.

The six-month annualised growth rate in the Westpac-Melbourne Institute leading index slowed to 0.88% in April, from 1.69% in March.

Eurozone: The increase in the consumer price index (CPI) for April was finalised at 7.4% in annual terms. Annual core inflation was 3.5%.

Japan: The Japanese economy shrank in the first quarter of 2022, according to preliminary figures released yesterday. GDP declined by 0.2% in the March quarter, although the result was stronger than the 0.4% fall expected by consensus forecasts. The result follows a revised 0.9% increase in output over the December quarter of 2021. A steep rise in the cost of imports and the impact of the Omicron variant weighed heavily on activity in the first quarter.

Industrial production growth was finalised at 0.3% in March, following a 2.0% rise in February.

United Kingdom: Consumer price inflation continued to rise in April. The consumer price index (CPI) jumped 2.5% in the month, the fastest monthly rise in 31 years. Consensus forecasts pointed to a 2.6% monthly increase. In annual terms, headline inflation spiked to 9.0%, a record high going back to 1989. This compares to consensus expectations of 9.1%.

Highlighting the breadth of price pressures, core inflation also surged, jumping to 6.2% in annual terms. This was the fastest annual pace of core inflation since October 2002.

The strong inflation report adds to pressures on the Bank of England to hike rates aggressively. A 25 basis point hike is fully priced for the June meeting, and some investors are betting on a 50 basis point move.

United States: Housing starts fell 0.2% in April, taking the annualised rate to 1.724 million, down from 1.728 million in the previous month. Building permits fell 3.2% in April, lowering the annualised rate to 1.829 million from 1.870 million. The housing market is cooling as builders contend with high material prices and labour shortages. At the same time, concerns about a steep surge in borrowing costs is squeezing demand.

Chicago Fed President Evans said inflation can be curbed by raising rates somewhat above neutral, which he views around 2.25-2.50%. "If we go 50 basis points beyond that, if we go 75 basis points beyond that, then that restrictive setting of policy

should be working".

Today's key data and events:

NZ PPI Q1 prev 1.4% (8:45am)
 JN Machinery Orders Mar exp 3.9% prev -9.8% (9:50am)
 AU Labour Force Apr (11:30am)
 Employment Change exp 20.0k prev 17.9k
 Participation Rate exp 66.4% prev 66.4%
 Unemployment Rate exp 3.8% prev 4.0%
 US Philadelphia Fed Index May prev 17.6 (10:30pm)
 US Existing Home Sales Apr prev -2.7% (12am)
 US Leading Index Apr prev 0.3% (12am)

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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