

Friday, 1 April 2022

| Equities (close & % change)              |           |       | Sydney Futures Exchange (close & change) |      |             |                      |         | Interest rates (close & change) |                               |       |       |
|--|-----------|-------|--|------|-------------|----------------------|---------|---------------------------------|-------------------------------|-------|-------|
| S&P/ASX 200                              | 7,500     | -0.2% |  |      | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |                               |       |       |
| US Dow Jones                             | 34,678    | -1.6% | 10 yr bond                               |      | 97.14       | 0.04                 |         | 90 day BBSW                     | 0.23                          | 0.00  |       |
| Japan Nikkei                             | 27,821    | -0.7% | 3 yr bond                                |      | 97.43       | -0.02                |         | 2 year bond                     | 1.81                          | -0.02 |       |
| China Shanghai                           | 3,409     | -0.4% | 3 mth bill rate                          |      | 99.38       | 0.01                 |         | 3 year bond                     | 2.34                          | -0.01 |       |
| German DAX                               | 14,415    | -1.3% | SPI 200                                  |      | 7,437.0     | -42                  |         | 3 year swap                     | 2.58                          | -0.07 |       |
| UK FTSE100                               | 7,516     | -0.8% | FX Last 24 hrs                           | Open | High        | Low                  | Current | 10 year bond                    | 2.84                          | 0.05  |       |
| <b>Commodities (close &amp; change)*</b> |           |       | TWI                                      |      | 64.1        | -                    | -       | 63.6                            | <b>United States</b>          |       |       |
| CRB Index                                | 295.2     | -6.1  | AUD/USD                                  |      | 0.7513      | 0.7524               | 0.7471  | 0.7482                          | 3-month T Bill                | 0.48  | -0.05 |
| Gold                                     | 1,937.44  | 4.6   | AUD/JPY                                  |      | 91.52       | 92.10                | 90.76   | 91.03                           | 2 year bond                   | 2.33  | 0.03  |
| Copper                                   | 10,367.50 | 48.0  | AUD/GBP                                  |      | 0.5719      | 0.5726               | 0.5686  | 0.5695                          | 10 year bond                  | 2.34  | -0.01 |
| Oil (WTI futures)                        | 100.73    | -7.1  | AUD/NZD                                  |      | 1.0772      | 1.0814               | 1.0758  | 1.0791                          | <b>Other (10 year yields)</b> |       |       |
| Coal (thermal)                           | 251.35    | -0.7  | AUD/EUR                                  |      | 0.6734      | 0.6773               | 0.6693  | 0.6761                          | Germany                       | 0.55  | -0.10 |
| Coal (coking)                            | 521.00    | -0.7  | AUD/CNH                                  |      | 4.7781      | 4.7819               | 4.7440  | 4.7539                          | Japan                         | 0.22  | -0.01 |
| Iron Ore                                 | 161.40    | 1.8   | USD Index                                |      | 97.85       | 98.40                | 97.69   | 98.36                           | UK                            | 1.61  | -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:** US stocks declined and the US yield curve flattened as investors continued to contemplate tighter central bank policy and the Ukraine war. Oil prices fell sharply after the US agreed to release strategic reserves to ease price pressures.

**Share Markets:** US stocks were in the red. The Dow and S&P 500 declined 1.6% and the Nasdaq fell 1.5%. The ASX 200 rose 0.7%.

**Interest Rates:** The US 2-year treasury yield rose 3 basis points to 2.33% while the 10-year yield slipped 1 basis point to 2.34%. This took the 2-10yr spread to 1 basis point – its lowest since 2019.

Markets are almost fully priced for a 50 basis point hike at the next Fed meeting in May.

The Australian 3-year (futures) yield rose 3 basis points to 2.59% while the 10-year futures yield slipped 3 basis points to 2.88%.

Markets are fully priced for the Reserve Bank to commence hiking in June.

**Foreign Exchange:** The Australian dollar slipped from 0.7513 to 0.7482, sticking to its range from the past week or so. The US dollar strengthened.

**Commodities:** West Texas Intermediate crude oil prices (futures) fell sharply to around US\$100 a barrel as the US confirmed it will release an extra million barrels of crude a day from its reserves to ease price pressures. Meanwhile, OPEC+ refuses to

increase its supply further.

European gas prices whipsawed as President Putin said Russia will keep supplying Europe but still insisted on being paid in rubles. Shipments will be stopped on Friday for customers that don't accept the new terms although European officials advised the change isn't likely to impact supplies.

**Australia:** Credit growth continued to expand in February as the economy bounced back from the short-term hit from the Omicron outbreak. Credit extended to the private sector advanced by 0.6% in February and hit the fastest annual growth rate in more than 13 years, at 7.9%.

Housing credit grew by 0.6% in February. This was down from 0.7% in January. Despite the monthly decline, annual growth picked up to 7.8%, the fastest pace in 11½ years.

Business credit expanded by 0.8% in February, up from 0.6% the month prior. This took the annual growth rate to 9.8%, the fastest in over 13 years.

Credit growth is expected to remain robust as the economy grows strongly over 2022. However, risks to the outlook remain. Inflationary pressures are expected to increase in the near term, as war in Ukraine and continued supply-chain disruptions impact commodity prices and the broader economy.

Dwelling approvals spiked by 43.5% in February, more than unwinding the 27.1% Omicron induced

decline in January. Approvals are 7.8% lower in annual terms.

The increase in approvals was underpinned by a 16.5% jump in private sector houses, and a 78.3% surge in 'other' private sector dwellings. This includes approvals for apartments, units and semi-detached buildings, which tend to be more volatile month to month.

**China:** Efforts to curb the rapid spread of COVID-19 weighed on business activity in March.

Manufacturing activity contracted for the first time since October. The manufacturing purchasing managers' index (PMI) fell to 49.5 in March, from 50.2 in February.

Activity in the services sector experienced a sharper decline. The services PMI came in at 48.4 in March, down from 51.6 in February. This is the first time the index has dropped below 50 in six months.

**Eurozone:** Unemployment edged down slightly to 6.8% in February from 6.9% in January. The February print marks a new record low.

**Japan:** Industrial production expanded 0.1% in February, following consecutive monthly declines in December and January. The result fell short of market expectations for a 0.5% rise.

**Russia & Ukraine:** Ukraine and Russia are set to resume talks on Friday.

Ukraine President Zelensky addressed Australian Parliament yesterday. In response to a request from Zelensky, the Australian Government will provide an extra \$25 million in military support to Ukraine.

**United Kingdom:** GDP was finalised at 1.3% growth in the quarter – from 1.0% – taking annual growth to 6.6%. Net exports improved while consumption was softer.

House prices jumped 1.1% in March to 14.3% higher over the year, according to Nationwide. This is the fastest annual growth since 2004 and the eighth consecutive month that home prices have increased in the UK, despite the growing pressure on household budgets from rising inflation and rising interest rates.

**United States:** Personal income rose 0.5% in February while personal spending was up 0.2%. In other words, consumers pocketed some of their higher wage income alongside rising inflation and geopolitical uncertainty, even while the most recent Covid wave receded.

The personal consumption expenditure (PCE) deflator rose 0.6% in February and 6.4% in annual terms. The core measure was up 5.4% over the

year. The result was broadly in line with expectations. The inflation gauge – which is targeted by the US Federal Reserve – is running at its highest level since the early 1980s.

The MNI Chicago PMI rose to 62.9 in March, from 56.3 in February. Production, employment and new orders all rose.

#### Today's key data and events:

NZ ANZ Cons. Confidence Mar prev 81.7 (8am)

AU CoreLogic Dwelling Prices Mar exp 0.3% prev 0.3% (10am)

JN Nikkei Mfg PMI Mar Final prev 53.2 (11:30am)

AU Housing Finance Feb (11:30am)

Total exp 2.5% prev 2.6%

Owner-occupier exp 1.0% prev 1.0%

Investor exp 5.5% prev 6.1%

CH Caixin Mfg PMI Mar exp 49.9 prev 50.4 (12:45pm)

UK Markit Mfg PMI Mar Final exp 55.5 prev 55.5 (7:30pm)

EZ CPI Mar Prel. exp 1.9% prev 0.9% (8pm)

US Non-farm Payrolls Chg Mar exp 490k prev 678k (11:30pm)

US Unemploy. Rate Mar exp 3.7% prev 3.8% (11:30pm)

US Avg. Hrly Earnings Mar exp 0.4% prev 0.0% (11:30pm)

US Markit Mfg PMI Mar Final exp 58.5 prev 58.5 (12:45am)

US Const. Spending Feb exp 1.0% prev 1.3% (1am)

US ISM Mfg Mar exp 59.0 prev 58.6 (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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