

Tuesday, 1 February 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,972	-0.2%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	35,131	1.2%	10 yr bond	98.06		-0.03	90 day BBSW	0.08	0.00	
Japan Nikkei	27,002	1.1%	3 yr bond	98.58		-0.06	2 year bond	0.88	-0.07	
China Shanghai	3,522	-1.0%	3 mth bill rate	99.84		-0.02	3 year bond	1.31	-0.10	
German DAX	15,471	1.0%	SPI 200	6,895.0		27	3 year swap	1.54	-0.03	
UK FTSE100	7,464	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.90	-0.04
Commodities (close & change)*			TWI	59.4	-	-	59.3	<b>United States</b>		
CRB Index	255.1	2.3	AUD/USD	0.6995	0.7077	0.6985	0.7067	3-month T Bill	0.17	-0.02
Gold	1,798.60	7.1	AUD/JPY	80.63	81.63	80.53	81.31	2 year bond	1.18	0.02
Copper	9,554.00	-1.5	AUD/GBP	0.5220	0.5267	0.5214	0.5255	10 year bond	1.78	0.01
Oil (WTI futures)	88.27	1.5	AUD/NZD	1.0681	1.0752	1.0659	1.0744	<b>Other (10 year yields)</b>		
Coal (thermal)	181.95	-3.6	AUD/EUR	0.6276	0.6323	0.6267	0.6291	Germany	0.01	0.06
Coal (coking)	437.67	-0.3	AUD/CNH	4.4542	4.5115	4.4486	4.5030	Japan	0.18	0.01
Iron Ore	137.70	1.6	USD Index	97.27	97.26	96.52	96.61	UK	1.30	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:** Markets remained cautious as they navigate central bank tightening, geopolitical risks and corporate earnings. US stocks and bond yields rose.

**Share Markets:** US share markets moved higher for a second consecutive day. The NASDAQ led the gains, closing up 3.4%. The S&P 500 and the Dow Jones climbed 1.5% and 1.2%, respectively.

The ASX 200 edged down 0.2% yesterday. Futures are pointing to a solid open this morning.

**Interest Rates:** The US 2-year treasury yield increased 2 basis points to 1.18%, while the 10-year yield rose 1 basis point to 1.78%.

Australian government bond yields (futures) rose in the lead up the RBA board meeting. The 3-year (futures) yield picked up from a low of 1.39% to a high of 1.45%. The 10-year (futures) yield increased from 1.91% to 1.96%.

A 15 basis point rate hike from the Reserve Bank (RBA) is fully priced for June 2022.

**Foreign Exchange:** The Aussie dollar rallied overnight in the lead up the RBA board meeting. The AUD/USD pair jumped from a low of 0.6985 to a high of 0.7077, closing back above the 70-cent handle.

The AUD/NZD pair rose to its highest level since June 2021. The pair jumped from a low of 1.0659 to a high of 1.0752.

The USD depreciated against a basket of major

currencies. The DXY index fell from a high of 97.27 to a low of 96.52.

**Commodities:** Oil continued to march higher. Gold and iron ore also rose, while copper and coal fell.

**Australia:** All eyes will be on the RBA board meeting today. We expect the RBA to drop its \$4bn per week bond purchasing program and to leave the cash rate on hold at 0.10%. The meeting may also provide some colour on the board's expected path of interest rates.

Credit growth remained strong in December, increasing 0.8% in the month. In annual terms, credit growth jumped to 7.2%. This was the highest annual growth in over 13 years.

Business credit grew by 1.1%, following a 1.6% jump in November. This strength in part reflects businesses drawing down on lines of credit to shore up balance sheets and improve their cash position. Additionally, the economic rebound following the lifting of the Delta lockdowns supported business activity and demand for credit.

Housing credit continued to expand at an above-average pace. Credit grew by 0.7% in December to be 7.4% higher over the year. This was the highest annual growth rate in over six years.

Credit for owner-occupier housing expanded by 0.8% in December, to be 9.6% higher over the year. This was the highest annual growth for over 13 years. Investor credit has picked-up over 2021. This

continued in December, as credit grew by 0.5%.

Business credit is expected to be supported by strong demand as the economy recovers, low interest rates, and generous investment incentives from government.

Inflation expectations picked up in January according to the Melbourne Institute. Inflation expectations increased by 0.4%, following a 0.2% increase in December. In annual terms inflation expectations jumped to 3.0%, from 2.8% the month prior.

**Japan:** The rapid spread of COVID-19 drove a steeper than expected fall in industrial production in December. Preliminary figures estimate that production dropped 1.0% over the month, following a 7.0% rise in November. Annual growth in industrial production slumped to 2.7% in December. This is down from 5.1% in November.

**Eurozone:** Output growth slowed in the December quarter. GDP grew by 0.3%, down from a revised 2.3% increase in the September quarter. A combination of COVID-19 restrictions, soaring energy costs and supply chain disruptions contributed to the slow-down. Annualised GDP growth picked up to 4.6%, from 3.9% in the September quarter.

**United States:** Business activity picked up in January according to the MNI Chicago purchasing managers' index (PMI). The index jumped to 65.2 in January, up from a revised 64.3 in December. However, the employment sub-index revealed that labour shortages are continuing to weigh on businesses.

The Dallas Fed manufacturing index fell sharply to 2.0 in January. This follows a revised reading of 7.8 in December. Encouragingly, the six-month outlook for business activity edged up. However, labour and input costs continue to climb.

Federal Open Markets Committee (FOMC) member Daily said interest rates could rise as early as March, but cautioned against tightening policy too fast: "We are not behind the curve...When you're trying to get an economy from extraordinary support to one that's going to just gradually put it on to a self-sustaining path, you have to be data-dependent... but you also have to be gradual and not disruptive."

FOMC member George noted "more aggressive action on the balance sheet could allow for a shallower path for the policy rate" which could help avoid problematic financial imbalances.

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

NZ Trade Balance Dec prev -\$864m (8:45am)
AU CoreLogic Dwelling Prices Jan exp 0.9% prev 0.6% (10am)
JN Job to Appl. ratio Dec exp 1.16 prev 1.15 (10:30am)
AU Housing Finance Dec (11:30am)
Total exp 8.0% prev 6.3%
Owner-occupier exp 7.5% prev 7.6%
Investor exp 8.5% prev 3.8%
AU Retail Sales Vol. Q4 exp 8.5% prev -4.4% (11:30am)
AU Retail Sales Dec exp -2.0% prev 7.3% (11:30am)
AU RBA Board Meeting (2:30pm)
Cash Rate Target exp 0.10% prev 0.10%
EZ Markit Mfg PMI Jan Final exp 59.0 prev 59.0 (8pm)
EZ Unemployment Rate Dec exp 7.1% prev 7.2% (9pm)
UK Nationwide House Prices Jan exp 0.6% prev 1.0% (6pm)
UK Markit Mfg PMI Jan Final prev 56.9 (8:30pm)
US Markit Mfg PMI Jan Final exp 55.0 prev 55.0 (1:45am)
US Construction Spending Dec exp 0.6% prev 0.4% (2am)
US ISM Mfg Jan exp 57.5 prev 58.8 (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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