Morning report

Tuesday, 1 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,049	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,879	-0.5%	10 yr bond	97.86		0.00		90 day BBSW	0.08	0.00
Japan Nikkei	26,527	0.2%	3 yr bond	98.45		0.03		2 year bond	1.10	-0.11
China Shanghai	3,629	0.3%	3 mth bill rate	99.90		-0.01		3 year bond	1.54	-0.13
German DAX	14,461	-0.7%	SPI 200	7,044.0		21		3 year swap	1.79	-0.12
UK FTSE100	7,458	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.14	-0.10
Commodities (close & change)*			TWI	60.6	-	-	60.6	**United States**		
CRB Index	269.1	4.6	AUD/USD	0.7166	0.7265	0.7158	0.7262	3-month T Bill	0.29	-0.02
Gold	1,909.90	20.6	AUD/JPY	82.64	83.71	82.40	83.48	2 year bond	1.45	-0.12
Copper	9,919.00	2.0	AUD/GBP	0.5371	0.5417	0.5368	0.5413	10 year bond	1.83	-0.13
Oil (WTI futures)	95.91	4.3	AUD/NZD	1.0727	1.0769	1.0708	1.0733	**Other (10 year yields)**		
Coal (thermal)	251.50	30.6	AUD/EUR	0.6124	0.6479	0.6418	0.6479	Germany	0.14	-0.10
Coal (coking)	448.50	20.8	AUD/CNH	4.5304	4.5869	4.5279	4.5869	Japan	0.19	-0.02
Iron Ore	145.50	3.6	USD Index	96.62	97.42	96.61	96.75	UK	1.41	-0.05

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: Russia's continuing assault on Ukraine continues to dominate markets. Uncertainty remains heightened.

Share Markets: Share markets ended in the red, but erased some of their losses, as traders assessed the latest developments in the Ukraine-Russian conflict. The S&P 500 index fell 16 points (or -0.4%) to record its second straight month of declines – the longest losing streak since October 2020. The Dow also ended lower, off 166 points (or -0.5%). The tech-heavy Nasdaq 100 bucked the trend to end higher – up 57 points at the close (or +0.4%).

Falls were deeper in the major European share markets. The Euro Stoxx 50 index dropped 47 points (or -1.2%).

The Russian stock market exchange remained closed.

Interest Rates: US Treasury yields fell sharply overnight, as investors shift towards safer-haven asset classes. The US 2-year yield dropped 12 basis points and the US 10-year yield fell 13 basis points.

Foreign Exchange: The swiss franc strengthened considerably overnight against the US dollar and euro. In fact, against the euro, the CHF staged its biggest gain since 2018.

The Australian dollar trading quietly in a range of 0.7166-0.7265 ahead of the Reserve Bank board meeting today and amid disruptions to commodity markets from Russia's invasion of Ukraine.

Commodities: Gold jumped overnight and is holding near a 13-month high. Oil prices also rose. The US and its allies are discussing a coordinated release of about 60 million barrels of crude from reserves.

COVID-19: Roche's diagnostics chief said it's too early to call an end to the pandemic even as Omicron ebbs, because a seasonal resurgence is possible later this year.

Australia: The Reserve Bank (RBA) board meets later today. We expect the RBA to hold the cash rate at a record low of 0.1%, despite rising inflationary pressures and recovering demand. We expect the rate-hike cycle to kick off in August after more data on wages and inflation forces the RBA's hand. The accompanying RBA board statement will be closely gleaned today. However, it is unlikely to contain a lot of new clues because the RBA recently published fresh forecasts and the RBA Governor also recently delivered several speeches, which included testimony to Parliament.

There was a large batch of economic data released yesterday.

Credit extended to the private sector grew 0.6% in January, taking annual growth to a fresh 13-year high of 7.6%. Households borrowing for housing and businesses borrowing to invest and expand are driving this growth.

Credit extended for housing continues to be a stellar performer. It grew 0.7% in January, which is the third straight month of growth at this pace. Housing credit grew by 7.7% on a year ago - the fastest annual pace since August 2010.

The upswing in business credit, that began early last year, continued in January. Business credit jumped 0.6% in January, after two incredibly solid monthly rises of 1.1% and 1.6%, respectively. This takes the monthly increases to nine in a row. Annual growth of business credit rose to 9.0%, which is a 13-year high, and well above the 10 year average of 3.7%.

Remarkably, retail sales rose 1.8% in January, all but confirming that the Omicron outbreak has delayed, rather than derailed the recovery. The end of 2021 produced a lot of volatility in retailing, but still finished up a solid 2.5% in the two months to end December.

Retail sales increased 6.4% over the year to January - the fastest annual pace since May 2021, just before the Delta lockdowns. Sales are now 17.1% above pre pandemic levels, despite the disruption caused from Omicron.

A 'shadow lockdown' continued in January, as millions of Australians were forced to isolate due to a COVID-19 infection or as a close contact. However, this was not enough to deter consumers, ready to unleash their war chest of savings and pent up demand.

Inventories rose 1.1% in the December quarter – exceeding market expectations of a flat result – and partially unwinding the hit to inventories during the Delta lockdowns. This will see inventories add 1 percentage point to GDP growth for the December quarter.

Company profits rose 2.0% in the December quarter, in line with market expectations, alongside the broader recovery in the economy. The result follows a 4.0% rise in profits over the September quarter, underpinned by government stimulus payments which curtailed in the fourth quarter.

In other data, inflation expectations jumped to the highest level since April 2011. The Melbourne Institute inflation expectations gauge increased to 3.5% in annual terms in February. The result follows a 3.0% reading in January.

Japan: Industrial production fell 1.3% in January, following a 1.0% decline in December. The result was weaker than the 0.7% drop expected by the market and is a sign that Omicron may have weighed more heavily on output than initially anticipated.

New Zealand: Business confidence slipped to its lowest since April 2020 in February, reaching -51.8. It was the fourth consecutive decline in confidence, as Omicron anxiety and rising costs weighed on businesses.

The NZ and UK government signed the Free-Trade agreement that was first announced in October to remove 99.5% of tariffs on NZ goods.

Russia & Ukraine: Delegations from Russia and Ukraine agreed to continue talks aimed at ending the war after a meeting on the border with Belarus ended with few signs of progress.

Putin's hoped for rapid push through Ukraine has met much more opposition both on the ground from Ukrainian forces and a united front from NATO, UN and EU. Germany's turnaround to up its defence spending to the NATO recommended 2% and to offer, with most other EU states, military hardware signals a decidedly more prolonged conflict.

Russia's central bank hiked its benchmark rate to 20% overnight, from 9.5%, banned any movement of FX overseas and ordered firms to convert at least 80% of FX receipts.

The US also imposed sanctions on Russia's central Bank and related institutions (wealth fund and investment fund) whilst exempting energy-related transactions with Russian banks/institutions.

The UK is to add further banks to its sanctions and prevent Russian banks from GBP clearing and extend sanctions on export goods.

More European countries (after Germany's major shift to supplying military hardware) announced armaments supplies to Ukraine, including Finland and Sweden.

Several financial firms announce the freezing of Russian related investment funds (including JP Morgan and Danske) and MSCI suggested that Russia could be removed from investment indices.

Russia's President Vladimir Putin announced countersanctions in the face of international penalties over the invasion of Ukraine. He banned all Russian residents from transferring hard currency abroad, including for servicing foreign loan contracts. The Russian government also shut its airspace to airlines from 36 countries.

United States: The Chicago purchasing managers' index (PMI) slipped to 56.3 in February, from 65.2 in the previous month. It is well under consensus expectations and is the lowest level since August

2000.

The Dallas's Fed manufacturing activity index lifted to 14.0 in February, from 2.0 in January. The outcome was well above consensus expectations for a smaller rise to 3.5. Although business activity, new orders and outlook picked up, employment, hours worked, and wages were down from the prior month.

The Fed's Bostic repeated his desire to begin tightening with a 25 basis points rate hike this March. However, he stressed data dependency on the pace and scale of hikes.

Today's key data and events:

AU CoreLogic Dwelling Prices Feb exp 0.3% prev 0.8% (10am)

AU Balance of Payments Q4 (11:30am)

Current Account exp $13.5bn prev $23.9bn

Net Exports Contrib. to GDP exp -1.0ppt prev 1.0ppt

AU Government Statistics (11:30am)

AU Housing Finance Jan (11:30am)

Total exp 5% prev 4.4%

Owner-occupier exp 4.5% prev 5.3%

Investor exp 5.5% prev 2.4%

AU RBA Board Meeting (2:30pm)

Cash Rate Target exp 0.10% prev 0.10%

CH Mfg PMI Feb exp 49.8 prev 50.1 (12:30pm)

CH Non-Mfg PMI Feb exp 50.7 prev 51.1 (12:30pm)

CH Caixin Mfg PMI Feb exp 49.1 prev 49.1 (12:45pm)

EZ Markit Mfg PMI Feb Final exp 58.4 prev 58.4 (8pm)

UK Markit Mfg PMI Feb Final exp 57.3 prev 57.3 (8:30pm)

US Markit Mfg PMI Feb Final exp 57.5 prev 57.5 (1:45am)

US Construction Spending Jan exp -0.1% prev 0.2% (2am)

US ISM Mfg Index Feb exp 58.0 prev 57.6 (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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