

Monday, 20 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,475	-1.8%			Last	Overnight Chg		Australia		
US Dow Jones	29,889	-0.1%	10 yr bond	95.83		0.03	90 day BBSW	1.80	0.06	
Japan Nikkei	25,963	-1.8%	3 yr bond	96.11		0.03	2 year bond	3.32	0.13	
China Shanghai	3,476	1.0%	3 mth bill rate	96.73		0.00	3 year bond	3.63	0.13	
German DAX	13,126	0.7%	SPI 200	6,345.0		-19	3 year swap	4.16	0.05	
UK FTSE100	7,016	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.13	0.14
Commodities (close & change)*			TWI	62.7	-	-	62.7	United States		
CRB Index	309.1	-8.1	AUD/USD	0.7049	0.7051	0.6898	0.6932	3-month T Bill	1.54	0.03
Gold	1,839.39	-17.9	AUD/JPY	93.29	94.57	93.02	93.59	2 year bond	3.18	0.09
Copper	8,969.00	-112.3	AUD/GBP	0.5705	0.5717	0.5652	0.5674	10 year bond	3.23	0.03
Oil (WTI futures)	109.56	-8.0	AUD/NZD	1.1081	1.1089	1.0957	1.0984	Other (10 year yields)		
Coal (thermal)	358.75	12.4	AUD/EUR	0.6676	0.6684	0.6592	0.6608	Germany	1.66	-0.05
Coal (coking)	386.00	9.5	AUD/CNH	4.7123	4.7164	4.6390	4.6565	Japan	0.23	-0.03
Iron Ore	119.40	-0.6	USD Index	103.89	105.09	103.83	104.70	UK	2.50	-0.02

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: There were tentative signs of stabilisation in risk sentiment on Friday alongside reassurances from Fed speakers that the central bank is committed to reining in inflation. However, the reprieve may be short-lived as growth concerns remain in focus. The S&P 500 rose modestly, US treasury yields increased and the US dollar strengthened.

Share Markets: The S&P 500 rose 0.2% on Friday, while the Dow edged down 0.1%. The Nasdaq increased 1.4%. However, all three indices have dropped at least 10% over the past three weeks alongside mounting pessimism over the global economic recovery. Meanwhile, the ASX 200 declined 1.8%.

Interest Rates: The US 10-year treasury yield traded sideways, finishing 3 basis points higher at 3.23%. The 2-year treasury rose 9 basis points to 3.18%.

Markets are priced for the Fed funds rate to be 69 basis points higher at the next meeting in July, and around 200 basis points higher by the end of the year.

The Australian 10-year and 3-year futures yields both rose 13 basis points to 4.21% and 3.93% respectively.

Interest-rate markets are 103% priced for a 50 basis point rate hike at the Reserve Bank's July meeting and expect the cash rate to reach 3.79% by the end of the year.

Foreign Exchange: The AUD/USD dropped back below 0.7000 on Friday as the US dollar strengthened and commodity prices were generally weaker. The pair declined from 0.7049 to 0.6932 but held above the low of 0.6851 from earlier in the week.

Commodities: Commodity prices generally declined. West Texas intermediate crude oil futures fell below \$110 per barrel. Gold and iron ore slipped.

Australia: There were no major economic data releases on Friday.

Eurozone: European Central Bank (ECB) member Knot said several 50 basis point hikes were possible if inflation worsens, however he doesn't see hikes totalling 200 basis points before early 2023.

The final estimate confirmed consumer prices grew 0.8% in May, and 8.1% over the year, up from 7.4% in April. Core inflation rose to 3.8% from 3.5% in April. Inflation was up across all categories. The Ukraine war and disruptions to commodity markets pushed up food prices, energy bills were up, and strained supply chains continued to push up prices for non-energy industrial goods. The print adds to pressure on the ECB to tighten policy more rapidly, following the 25 basis point hike already flagged for July.

Japan: The Bank of Japan left its policy rate on hold at -0.10% on Friday, while also maintaining its

0.00% target on the 10-year bond. The decision was despite considerable recent selling pressure on the Japanese Yen driven primarily by the widening yield differentials between the US and Japan.

New Zealand: The BusinessNZ manufacturing PMI edged up to 52.9 in May, from a 20-month low of 51.2 in April. Three of the five sub-indices improved in the month, taking all five above the 50 threshold which indicates expansion.

United States: Fed Chair Powell reiterated that the central bank is “acutely focused on returning inflation to our 2% objective”. Meanwhile Federal Open Markets Committee (FOMC) voter Waller said he supports another 75 basis point hike in July, assuming the data comes in as expected, adding recession fears are “a bit overblown”. St. Louis Fed President Bullard (voter) said a soft landing is feasible if policy is managed well. Minneapolis Fed President Kashkari (non-voter) said he would support another 75 basis point hike in July.

Factory output growth slowed in May. Industrial production rose 0.2%, compared to 1.4% growth in April. Manufacturing output fell 0.1%, led by declines in machinery and food products. The manufacturing of wood products also posted a significant decline alongside the slowdown in housing construction.

The leading index declined 0.4% in May for the second month in a row, in line with expectations. The result indicates that growth is slowing in response to high inflation and rising interest rates.

Today's key data and events:

UK Rightmove House Prices Jun prev 2.1% (9:01am)

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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