

Friday, 20 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,064	-1.6%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	31,253	-0.8%	10 yr bond	96.68		0.08	90 day BBSW	1.04	-0.04	
Japan Nikkei	26,403	-1.9%	3 yr bond	97.09		0.05	2 year bond	2.54	-0.06	
China Shanghai	3,245	0.4%	3 mth bill rate	98.72		0.00	3 year bond	2.85	-0.05	
German DAX	13,882	-0.9%	SPI 200	7,048.0		-9	3 year swap	3.10	-0.04	
UK FTSE100	7,303	-1.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.38	-0.08
Commodities (close & change)*			TWI	62.6	-	-	62.4	<b>United States</b>		
CRB Index	313.7	4.4	AUD/USD	0.6959	0.7073	0.6954	0.7046	3-month T Bill	0.97	-0.04
Gold	1,841.85	25.3	AUD/JPY	89.29	90.54	89.00	90.08	2 year bond	2.61	-0.06
Copper	9,246.10	-133.4	AUD/GBP	0.5639	0.5667	0.5628	0.5649	10 year bond	2.84	-0.05
Oil (WTI futures)	112.21	2.6	AUD/NZD	1.1053	1.1071	1.0990	1.1040	<b>Other (10 year yields)</b>		
Coal (thermal)	412.10	0.1	AUD/EUR	0.6649	0.6687	0.6636	0.6658	Germany	0.95	-0.08
Coal (coking)	510.00	0.0	AUD/CNH	4.7177	4.7580	4.7145	4.7408	Japan	0.24	0.00
Iron Ore	127.25	0.7	USD Index	103.92	103.88	102.66	102.88	UK	1.87	0.00

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:** Risk sentiment remained downbeat as equity markets closed lower after swinging between gains and losses during the trading day. Bond yields declined and the US dollar weakened against the G-10 basket.

**Share Markets:** Equity markets closed lower after a day of swinging between gains and losses. The S&P 500 ranged between a gain of 0.6% and a loss of 1.2%, before closing 0.6% lower. The Nasdaq ranged between being 1.3% higher and 0.9% lower, before closing down 0.3%. The Dow Jones also weakened, down 0.8%.

The ASX 200 fell 1.6% yesterday.

**Interest Rates:** The US 10-year treasury yield declined by 5 basis points, to 2.84%. The 2-year treasury yield was 6 basis point lower, at 2.61%. Interest rate markets continue to price a 50 basis point hike at the June meeting.

The 10-year Australian government bond yield (futures) fell from 3.42% to 3.33%. The 3-year government bond yield (futures) declined from 2.96% to 2.91%.

**Foreign Exchange:** The AUD/USD pair bounced back from some of its recent weakness as the US dollar declined against a basket of major currencies. The pair rose from a low of 0.6954 to a high of 0.7073. It was trading around 0.7046 at the time of writing.

The USD Index declined from a high of 103.88 to a low of 102.66, before rebounding to 102.88.

**Commodities:** There were reports that China is seeking to replenish its strategic oil reserves by acquiring cheap Russian oil. This follows G-7 ministers calling on China to not support Russia or undermine economic sanctions. It also comes as EU leaders continue to debate a ban on Russian oil imports.

Oil prices rose to above US\$112 a barrel. Iron ore and coal were broadly unchanged. Gold advanced, while copper declined.

**Australia:** The unemployment rate fell 0.1 percentage points to 3.9% in April – the lowest rate since August of 1974!

However, jobs growth stalled in the month. Only 4k jobs were added, marking the slowest gain in six months, possibly an early sign that skills mismatches are hampering the pace of job gains.

In recent months, full-time jobs have grown rapidly. Indeed, in the three months to April, a record number of full-time jobs were added. The expansion in full time employment reflects the strengthening of the jobs market as some part-time workers likely move to full-time.

The underemployment rate – which includes people who are employed but wish to work more hours – fell for a sixth consecutive month in April to 6.1%. This is the lowest level of underemployment since September 2008.

The marginal decline in the unemployment rate was

largely driven by a modest pullback in the participation rate to 66.3% – off a record high of 66.4%. Meanwhile, hours worked rose 1.3% in the month to a new record high, as employers look to utilise more labour.

**Japan:** Core machinery orders surprised to the upside in March, jumping 7.1% compared to consensus expectations of a 3.9% rise. The result partially offsets consecutive monthly falls over January and February and marks the largest monthly jump in orders since October 2020.

**New Zealand:** Producer price inflation gathered some steam in the first quarter. The producer price index (PPI) gained 2.6% in the March quarter, following a revised 1.5% jump in the December quarter. This was the fastest quarterly rise in producer price inflation since the September quarter of 2008. The result points to a further acceleration in consumer price inflation as firms increasingly pass on growing cost pressures.

**United States:** Regional manufacturing activity in May fell to its lowest level since early 2020, according to the Philadelphia Fed index. The index sharply declined to 2.6 in May, from 17.6 in April. This was below consensus expectations of a 15.0 outcome. A positive number indicates expansion. The mood among businesses was less optimistic despite increases in new orders and shipments. The employment sub-index pulled back in the month. Businesses continue to experience price increases for their inputs and outputs and expect further price rises over the coming year.

Existing home sales declined for the third consecutive month, falling to their lowest level since the start of the pandemic. Existing home sales fell by 2.4% in April, to a seasonally adjusted annual rate of 5.61 million. This follows a revised 3.0% fall in March and was below consensus expectations of a 2.3% decline. Low supply levels continue to impact home sales and prices. The total inventory of homes for sales was 10.4% lower than a year ago. The median price of existing homes increased by 14.8% over the year, to \$391,200 in April. This was the highest on record. High prices and higher interest rates suggest that home sales may decline further in coming months.

Falling consumer confidence and lower home-building permits are weighing on sentiment as the leading index declined by 0.3% in April. The fall follows a revised 0.1% outcome in March and was below consensus expectations of a flat outcome.

Kansas City Fed President Esther George noted that

higher interest rates are needed to reduce inflation and that the impacts of higher rates on stock markets are not the focus of policymakers. She noted that equity markets are part of the transmission mechanism of monetary policy: “I think what we’re looking for is the transmission of our policy through market’s understanding, and that tightening should be expected... So it’s not aimed at the equity markets in particular, but I think it is one of the avenues through which tighter financial conditions will emerge.”

She was “very comfortable” with 50 basis point increases in rates. However, she was less supportive of more aggressive moves, noting “I think we’re good at 50 basis points right now, and I’d have to see something very different to say we need to go further than that.”

#### Today’s key data and events:

NZ Trade Balance Apr prev -\$392m (8:45am)  
 UK GfK Cons. Sentiment May exp -39 prev -38 (9:01am)  
 JN CPI Apr y/y exp 2.5% prev 1.2% (9:30am)  
 NZ Credit Card Spending Apr prev 3.2% (1pm)  
 UK Retail Sales Apr exp -0.3% prev -1.4% (4pm)  
 EZ Consumer Confidence May exp -21.5 prev 22.0 (12am)  
 AU Federal Election (Sat 21 May)

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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