

Wednesday, 22 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,524	1.4%	Last		Overnight Chg			Australia		
US Dow Jones	30,530	2.1%	10 yr bond	95.87	0.01			90 day BBSW	1.86	0.02
Japan Nikkei	26,246	1.8%	3 yr bond	96.17	0.02			2 year bond	3.15	-0.13
China Shanghai	3,465	-0.3%	3 mth bill rate	97.00	0.00			3 year bond	3.56	-0.05
German DAX	13,292	0.2%	SPI 200	6,463.0	48			3 year swap	4.02	0.00
UK FTSE100	7,152	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.06	0.00
Commodities (close & change)*			TWI	62.3	-	-	62.3	United States		
CRB Index	309.0	-0.1	AUD/USD	0.6951	0.6994	0.6935	0.6969	3-month T Bill	1.49	-0.08
Gold	1,832.98	-5.8	AUD/JPY	93.90	95.33	93.79	95.25	2 year bond	3.20	0.02
Copper	9,004.49	12.2	AUD/GBP	0.5675	0.5696	0.5657	0.5675	10 year bond	3.27	0.05
Oil (WTI futures)	109.52	1.5	AUD/NZD	1.0981	1.1016	1.0966	1.1009	Other (10 year yields)		
Coal (thermal)	395.50	13.3	AUD/EUR	0.6614	0.6631	0.6575	0.6615	Germany	1.77	0.02
Coal (coking)	385.50	0.2	AUD/CNH	4.6503	4.6766	4.6469	4.6632	Japan	0.24	0.00
Iron Ore	114.00	-0.9	USD Index	104.48	104.54	103.94	104.41	UK	2.65	0.05

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 rebounded as US markets returned from a long weekend. US equities rose, paring some of last week's losses. US Bond yields edged higher, and the US dollar was slightly weaker.

Share Markets: US share markets rebounded overnight, partly unwinding last week's steep losses. The S&P 500 and the NASDAQ each gained 2.5%, while the Down Jones jumped 2.1%.

The ASX 200 climbed 1.4% yesterday and futures are pointing to a strong open this morning.

Interest Rates: Bond demand softened alongside the improvement in sentiment, pushing yields higher. The US 2-year treasury yield rose 2 basis point to 3.20%, while the 10-year yield rose 5 basis points to 3.27%.

Interest rate markets are currently pricing a 96% probability of a 75 basis point rate hike at the Fed's July meeting.

The Australian 3-year government bond (futures) yield eased 2 basis points to 3.83%. The 10-year bond (futures) yield was unchanged at 4.14%.

Interbank cash rate futures currently imply an 87% probability the Reserve Bank (RBA) will hike by 50 basis points in July. Interest rate markets are expecting the cash rate to hit 3.5% by the end of 2022.

Foreign Exchange: The Aussie dollar finished the

day higher after a turbulent session. The AUD/USD pair traded from a low of 0.6935 to a high of 0.6994, before settling around 0.6969.

The US dollar softened against a basket of major currencies. The DXY index eased from a high of 104.54 to a low of 103.94, before recovering to close marginally lower at 104.41.

Despite some US dollar softness, the Japanese Yen tumbled to its lowest level since October 1998. The currency has come under growing selling pressure as monetary policy outcomes in the US and Japan diverge further.

Commodities: The price of oil firmed, although remained below US\$110 per barrel. Copper advanced, while gold and iron ore softened.

Australia: The RBA hiked the cash rate 50 basis points to 0.85% in June. Yesterday, the minutes from this meeting were released, the Governor delivered a speech titled 'Inflation and Monetary Policy', and the RBA also released the findings of its review of the yield curve target.

The communications highlight the RBA's growing concerns over inflation, the risk that long-term inflation expectations shift above the 2-3% target band, and the risk of a material slowing in spending alongside price pressures, rate hikes and a slowing housing market.

The minutes detail the Board considered hiking by 25 or 50 basis points at the June meeting. A 50-

basis point hike was favoured given the level of interest rates was still very low, the jobs market is strong and inflationary pressures are elevated.

On the other hand, moving 25 basis points would represent a “steady” approach in a time of heightened uncertainty.

It is implied the RBA doesn’t need to move in lockstep with central banks that have hiked by 50 or 75 basis points because the RBA meets more frequently.

The RBA conceded the exit from the yield curve target on 3-year government bonds in November 2021 was “disorderly” and caused “reputational damage”.

The key uncertainties remain how fast, and how high, the cash rate peaks. The Governor underscored the RBA is “not on a pre-set path”. Our central expectation remains that the RBA will hike 50 basis points in July. However, the arguments laid out in the minutes in favour of hiking in 25 basis point increments remain relevant.

The NSW and Queensland State Governments each handed down their 2022/23 budgets yesterday.

The NSW Government announced several new policies in addition to those already ‘leaked’ ahead of yesterday’s budget. A boost in spending was spearheaded by a commitment to providing all children with a year of preschool, alongside additional funding towards developing childcare facilities and lowering fees. Funding was also committed to making it easier for women to return to the workforce as working mothers or to work more hours. Stamp duty has been scrapped for first home buyers, who can now opt to pay an annual land tax instead of the upfront cost of stamp duty. While spending has expanded, the Treasurer remains committed to bringing the budget back to surplus by 2024-25.

Spending in the Queensland state budget was skewed towards healthcare; the commitment to build five new hospitals and adding an additional 2200 beds being a flagship policy. The Queensland government also allocated funding towards concession holders, to combat the rising cost of living, and towards education and infrastructure projects. On the receipts side, small and medium businesses will see a further discount to payroll taxes, while additional coal royalties will be charged to Queensland miners. The Government anticipates returning the budget to surplus by 2024-25.

Eurozone: European Central Bank (ECB) member Peter Kazamir said a 50 basis point hike in

September is “highly probable”. Kazamir called for the end of negative rates by September.

United States: Richmond Fed President, Thomas Barkin, said the Fed should normalise policy as fast as possible, without causing undue harm to financial markets or the economy. Barkin supported Jerome Powell’s forward guidance for either a 50 or 75 basis point hike at the next meeting.

The Chicago Fed national index was weaker than anticipated in May. The index fell to 0.01, from a revised 0.40 in April. This was the lowest index reading since September 2021.

Existing home sales declined for a fourth consecutive month in May, dropping 3.4%. Sales volumes are at their lowest level in almost two years as affordability pressures and rising borrowing costs weigh on demand.

Today’s key data and events:

NZ Trade Balance May prev \$584mn (8:45am)

AU WBC Leading Index May prev -0.15% (10:30am)

NZ Credit Card Spending May prev 0.7% (1pm)

EZ Cons. Confidence Jun Prel. exp -20.5 prev -21.1 (12am)

UK CPI May prev 2.5% exp 0.7% (4pm)

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.

Jameson Coombs, Associate Economist

Ph: 0401 102 789

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Economist

Matthew Bunny
matthew.bunny@banksa.com.au
(02) 8254 0023

Senior Economist

Jarek Kowcza
jarek.kowcza@banksa.com.au
0481 476 436

Associate Economist

Jameson Coombs
jameson.coombs@banksa.com.au
0401 102 789

The Detail

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