

Thursday, 23 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,509	-0.2%			Last	Overnight Chg		Australia		
US Dow Jones	30,483	-0.2%	10 yr bond	96.10		0.16	90 day BBSW	1.78	-0.08	
Japan Nikkei	26,150	-0.4%	3 yr bond	96.40		0.14	2 year bond	3.01	-0.15	
China Shanghai	3,424	-1.2%	3 mth bill rate	97.19		0.05	3 year bond	3.45	-0.11	
German DAX	13,144	-1.1%	SPI 200	6,412.0		23	3 year swap	3.78	-0.24	
UK FTSE100	7,089	-0.9%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.99	-0.08
Commodities (close & change)*			TWI	62.3	-	-	62.1	United States		
CRB Index	304.7	-4.3	AUD/USD	0.6969	0.6972	0.6881	0.6926	3-month T Bill	1.50	-0.11
Gold	1,837.72	4.7	AUD/JPY	95.25	95.30	93.59	94.31	2 year bond	3.06	-0.14
Copper	8,785.50	-219.0	AUD/GBP	0.5675	0.5678	0.5624	0.5647	10 year bond	3.16	-0.12
Oil (WTI futures)	106.19	-3.3	AUD/NZD	1.1009	1.1052	1.1001	1.1014	Other (10 year yields)		
Coal (thermal)	366.25	-2.4	AUD/EUR	0.6615	0.6618	0.6544	0.6555	Germany	1.64	-0.13
Coal (coking)	385.00	-0.5	AUD/CNH	4.6632	4.6668	4.6271	4.6486	Japan	0.25	0.01
Iron Ore	111.50	3.4	USD Index	104.41	104.95	103.86	104.20	UK	2.50	-0.16

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: Comments from Fed Chair Jerome Powell stoked recession concerns, as the Fed reaffirmed its commitment to taming inflation. The decline in risk sentiment prompted a bond rally, putting downward pressure on yields and softening US dollar demand. US share markets eased.

Share Markets: US share markets eased alongside comments from Fed Chair Powell acknowledging the risk of recession and reiterating the Fed's commitment to curbing inflation. The S&P 500 and the NASDAQ snapped a two-day rally to close down 0.1% and 0.2%, respectively. The Dow Jones finished the day 0.2% lower.

The ASX 200 fell 0.2% yesterday. Futures are indicating a solid open this morning.

Interest Rates: US Treasury yields tumbled as safe haven demand sparked a bond rally. The US 2-year treasury yield eased 14 basis points to 3.06%, while the 10-year yield fell 12 basis points to 3.16%.

Interest rate markets are attaching a 96% probability to another 75 basis point rate hike at the Fed's July meeting. Market pricing implies the federal funds rate will hit 3.5% by the end of the year.

The Australian 3-year government bond (futures) yield fell 14 basis points to 3.61%. The 10-year (futures) yield dropped 16 basis points to 3.91%.

Interbank cash rate futures imply an 83% probability the Reserve Bank will hike by 50 basis

points at its July meeting. Interest rate markets expect the cash rate rise above 3% by the end of the year.

Foreign Exchange: The Aussie dollar eased alongside a decline in risk sentiment. The AUD/USD pair fell from a high of 0.6972 to a low of 0.6881, before gaining some late momentum to close around 0.6926.

The US dollar softened modestly against a basket of major currencies. The USD index fell from a high of 104.95 to a low of 103.86, before settling around 104.20.

Commodities: The West Texas Intermediate (WTI) price of oil tumbled to a 6-week low overnight, briefly dipping below US\$102 per barrel, before rebounding to close around US\$106 per barrel.

Gold and iron ore firmed, while copper softened.

Australia: The six-month annualised growth rate in the Westpac-Melbourne Institute leading index fell from 1.09% in April to 0.58% in May. The index continues to indicate above trend growth over the next three to nine months, despite the monthly fall.

Eurozone: Consumer confidence took another step lower in June, according to preliminary estimates. The European Commission consumer confidence indicator dropped to -23.6, from -21.1 previously. This was the lowest reading since February 2013, eclipsing the low reached at the start of the

pandemic.

New Zealand: The trade surplus narrowed to \$263 million in May, from a revised \$440 million surplus in April. Imports surged to \$6.7 billion, from \$5.7 billion previously, alongside a lift in demand as the impact of Omicron continues to fade. Exports also lifted from \$6.2 billion to \$7.0 billion

Credit card spending rose 1.8% in May, following a revised 0.9% gain in April. The increase takes credit card spending 2.2% higher in annual terms.

United Kingdom: Annual headline inflation reached a fresh 40-year high in May, accelerating at its fastest pace since March 1982. The consumer price index (CPI) rose 9.1% over the year to May, from 9.0% previously. In monthly terms, consumer price inflation edged up 0.7%, down from a 2.5% gain in April. Inflation met consensus expectations in both monthly and annual terms.

Underlying inflation, which excludes more volatile items such as food and energy, rose 5.9% in annual terms. This was an improvement on the 6.2% annual jump recorded in April and slightly softer than market expectations of a 6.0% rise. However, an acceleration in services inflation suggests price pressures are broadening.

The strong inflation outcome will likely reinforce expectations for the Bank of England to hike rates more aggressively to combat inflation. Indeed, interest rate markets are fully pricing a larger 50 basis point rate hike at the Bank's August meeting.

United States: Fed Chair Jerome Powell warned that achieving a soft land would be "very challenging" and noted that a US recession is "certainly a possibility". Powell, during a senate testimony, said the Fed is "moving expeditiously" to hike rates, noting that demand had already showed some signs of cooling in rate-sensitive sectors.

Other Fed officials also added to commentary. Patrick Harker, head of the Philadelphia Fed branch, said that the US could have a couple of quarters of negative growth. Harker added that he wants to see the federal funds rate above 3% by year-end. Chicago Fed President, Charles Evans, said consideration for another 75 basis point hike at the Fed's July meeting would be "very reasonable", although 100 basis points is not necessary.

Today's key data and events:

JN Nikkei Services PMI Jun Prel. prev 52.6 (10:30am)

JN Nikkei Mfg PMI Jun Prel. prev 53.3 (10:30am)

UK Public Sector Borrowing May £17.8bn (4pm)

EZ Markit Services PMI Jun Prel. (6pm)

EZ Markit Mfg PMI Jun Prel. (6pm)

UK Markit Manufacturing PMI Jun Prel. (6:30pm)

UK Markit Services PMI Jun Prel. (6:30pm)

US Markit Manufacturing PMI Jun Prel. (11:45pm)

US Markit Services PMI Jun Prel. (11:45pm)

US Kansas City Fed Index Jun prev 23 (1am)

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

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