

Monday, 23 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,146	1.1%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	31,262	0.0%	10 yr bond		96.73	0.06		90 day BBSW	1.04	0.00
Japan Nikkei	26,739	1.3%	3 yr bond		97.14	0.04		2 year bond	2.49	-0.06
China Shanghai	3,297	1.6%	3 mth bill rate		98.74	0.00		3 year bond	2.80	-0.05
German DAX	13,982	0.7%	SPI 200		7,129.0	-15		3 year swap	3.05	-0.05
UK FTSE100	7,390	1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.31	-0.07
Commodities (close & change)*			TWI		62.4	-	-	62.6	<b>United States</b>	
CRB Index	312.7	-1.0	AUD/USD	0.7046	0.7074	0.7002	0.7045	3-month T Bill	0.99	-0.01
Gold	1,846.50	4.7	AUD/JPY	90.08	90.70	89.37	90.10	2 year bond	2.58	-0.03
Copper	9,441.00	5.5	AUD/GBP	0.5649	0.5666	0.5623	0.5642	10 year bond	2.78	-0.06
Oil (WTI futures)	110.28	0.4	AUD/NZD	1.1040	1.1053	1.0983	1.1004	<b>Other (10 year yields)</b>		
Coal (thermal)	330.70	10.2	AUD/EUR	0.6658	0.6690	0.6629	0.6670	Germany	0.94	-0.01
Coal (coking)	512.50	2.5	AUD/CNH	4.7408	4.7445	4.7044	4.7197	Japan	0.24	0.00
Iron Ore	132.00	-2.1	USD Index	102.88	103.26	102.77	103.15	UK	1.89	0.03

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:** Share markets displayed a lot of volatility on Friday night after another Fed speaker reiterated the message that a series of 50 basis point hikes was likely in the US. China's central bank stimulated the economy on Friday, helping most commodity prices to post gains. And the European Central Bank President flagged rate hikes are coming in July after data revealed German producer-prices inflation recorded the sharpest annual growth rate since 1949.

**Share Markets:** US share markets recovered from their early losses on Friday to finish in the black, just. The S&P 500 index closed 1 point higher after falling to a 1-year low during the trading session. The Dow closed 9 points higher. However, tech shares remained under pressure. The tech-laden Nasdaq closed 34 points (or -0.3%) lower.

**Interest Rates:** US 2-year treasury yields fell from 3 basis points to 2.58% and the 10-year yield fell 6 basis points to 2.78%. Interest-rate markets currently price the Fed funds rate to be 54 basis points higher at the next meeting in June, and 206 basis points higher by year's end.

The Australian 3-year government bond yield (futures) fell from 2.92% and 2.84%, while the 10-year yield fell from 3.35% to 3.25%.

Interest-rate markets currently price the cash rate to be 32 basis points higher by the June meeting and the cash rate to be at 2.52% by year's end.

Pricing has been wound back, as earlier this month pricing had the cash rate as high as 3.03% by year's end.

**Foreign Exchange:** The AUD/USD traded in a volatile fashion within a range of 0.7002 and 0.7074 and is now trading at the top of this range. Since hitting a low of 0.6829 on May 13, the AUD has grinded higher, but could struggle to move past 0.7100 in the very near term.

**Commodities:** Commodity prices generally firmed, underpinned by news of more stimulus from the Chinese government.

**Australia:** The Federal election on Saturday has resulted in a new government, led by the Australian Labor Party with Anthony Albanese the 31<sup>st</sup> Prime Minister of Australia. Around 71% of the vote has been counted. The ALP has secured 72 seats, the Liberal party 51, the Independents 10, Greens 2 and 2 to Other. There are still 14 seats to call. These remaining seats will determine if the ALP forms a majority or minority government. Several political strategists expect the ALP to secure 78 seats and rule with a majority.

There were strong swings away from the Liberal party, especially from female voters.

Another key issue in the election was climate change, which contributed to the swing away from the Liberal party and a rise in votes for the Independents and Greens.

**China:** Chinese banks cut a key interest rate for long-term loans by a record amount, a move that would reduce mortgage costs and may help counter weak loan demand caused by a property slump and Covid lockdowns. The 5-year loan prime rate, a reference for home mortgages, was lowered by 15 basis points to 4.45%. That was the largest reduction since a revamp of the rate in 2019. The move was larger than the 10 basis points expected by consensus. The 1-year rate was left unchanged at 3.70%.

**Europe:** The European Central Bank (ECB) appears certain to start raising rates in July. The head of the ECB, Christine Lagarde, once again signalled the first increase will be soon, saying on Dutch television that a hike may come "weeks" after net bond-buying ends early next quarter. But she downplayed the idea of a 50 basis point move amid concerns about economic expansion.

German producer prices rose by 2.8% in April and by 33.5% in the 12 months to April. The outcome was stronger than consensus expectations. The annual gain was the highest since 1949. Higher gas prices, boosted by the war in Ukraine, have contributed to the result. Gas prices spiked nearly 155% year on year.

Consumer confidence in the euro zone improved marginally to -21.1 in May, from -22.0 in April.

**Japan:** Consumer prices rose by 2.5% over the year to April. This was up on the 1.2% outcome over the year to March. Underlying inflation, which excludes volatile items such as fresh food, rose by 2.1% over the year to April. It is the first time in seven years that underlying inflation has exceeded the Bank of Japan's target of 2.0%. Rising import costs drove much of the increase.

**New Zealand:** A trade surplus of \$584 million was recorded in April, following a revised \$581 million deficit in March. The surplus was driven by a large fall in imports, partly offset by a small decline in exports.

Credit card spending rose by 0.7% in April, following a 3.4% gain in March. In annual terms, credit card spending was 1.1% higher over the year to April.

**United Kingdom:** Surging cost-of-living pressures continue to weigh on households as consumer sentiment fell to its lowest level since the 1970s. The GfK consumer confidence index declined to -40 in May. This result was below consensus expectations of -39 and follows an outcome of -38 in April. This was the lowest outcome since the series began in 1974.

Retail sales jumped by 1.4% in April, despite rising inflationary pressures. The outcome was well above consensus expectations of and follows a decline of 1.2% in the prior month. Food store sale volumes rose by 2.8% in the month, driven by higher spending on alcohol, tobacco and sweets.

**United States:** St. Louis Federal Reserve President, James Bullard, reiterated the Fed's mantra on curbing inflation and hiking rates to above neutral with a near term series of 50 basis point hikes. He added that the Fed could even be cutting rates in 2023 or 2024.

#### Today's key data and events:

AU RBA's Assistant Governor Kent Speech (9:05am)  
 EZ Ger. IFO Bus. Climate May exp 91.4 prev 91.8 (6pm)  
 US Chicago Fed Nat Act Index Apr exp 0.50 prev 0.44  
 (10:30pm)

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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