

Monday, 24 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,176	-2.3%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,265	-1.3%	10 yr bond		98.08	0.02		90 day BBSW	0.07	0.01
Japan Nikkei	27,522	-0.9%	3 yr bond		98.63	0.00		2 year bond	0.85	-0.04
China Shanghai	3,691	-0.9%	3 mth bill rate		99.83	0.00		3 year bond	1.32	-0.07
German DAX	15,604	-1.9%	SPI 200		7,006.0	-49		3 year swap	1.50	-0.03
UK FTSE100	7,494	-1.2%	FX Last 24 hrs		Open	High	Low	Current	10 year bond 1.92 -0.07	
Commodities (close & change)*			TWI		60.4	-	-	60.4	<b>United States</b>	
CRB Index	248.5	-1.5	AUD/USD		0.7213	0.7231	0.7171	0.7176	3-month T Bill	0.16 -0.01
Gold	1,835.38	-3.9	AUD/JPY		82.44	82.53	81.50	81.55	2 year bond	1.00 -0.02
Copper	9,977.00	-37.0	AUD/GBP		0.5298	0.5317	0.5285	0.5296	10 year bond	1.76 -0.05
Oil (WTI futures)	85.14	-1.8	AUD/NZD		1.0631	1.0714	1.0671	1.0680	<b>Other (10 year yields)</b>	
Coal (thermal)	196.40	9.0	AUD/EUR		0.6358	0.6393	0.6323	0.6326	Germany	-0.07 -0.04
Coal (coking)	408.33	2.3	AUD/CNH		4.5807	4.5896	4.5476	4.5497	Japan	0.14 -0.01
Iron Ore	137.25	0.2	USD Index		95.56	95.85	95.50	95.64	UK	1.17 -0.05

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

**Main Themes:** Investors rotated into safer-haven asset classes on Friday, leading to sharp falls in share markets, gains in government bond prices and demand firming for currencies such as the Japanese yen and Swiss franc. Geopolitical tensions and an approaching US Federal Reserve meeting this week has unsettled markets. The Fed is widely expected to signal the start of a rate hike cycle in March.

**Share Markets:** US share markets fell on Friday. The S&P 500 and Nasdaq capped their worst weeks since 20 March 2020. The looming US Federal Reserve meeting this week and geopolitical tensions weighed on equities.

Tech shares bore the brunt of the sell-off amid shaky company earnings. The Nasdaq dropped 385 points on Friday (or -2.7%) and plunged 1,125 points (or -7.6%) over the week. The sell off in the Nasdaq was led by Netflix.

The S&P 500 index fell 85 points (or -1.9%) on Friday and declined 265 points (or -5.7%) over the week. The S&P 500 has closed under its 200-day moving average for the first time since 2020, signalling the potential for more losses in the short term.

Meanwhile, the Dow dropped 450 points (or -1.3%) on Friday and lost 1,646 (or -4.6%) for the week. The Dow's weekly performance was the softest since 30 October 2020.

The ASX 200 lost 167 points (or -2.3%) on Friday. For the week, the ASX 200 was down 218 points (or -2.9%) – the worst weekly performance since 30 October 2020. The sell off on Wall Street on Friday night suggests further weakness is likely when the Australian share market opens this morning.

**Interest Rates:** Government bond prices rallied (i.e. yields fell), as equities fell out of favour and investors rotated into safer haven asset classes on Friday. The US 2-year bond yield fell 2 basis points and the US 10-year bond yield dropped 5 basis points.

The Australian 3-year government bond yield (futures) fell from 1.40% to 1.37%, while the 10-year yield fell from 1.97% to 1.92%.

Interest-rate markets are fully pricing the first RBA rate hike to be in June 2022. Our house view altered last week. We now expect the RBA to kick off the rate-hike cycle in August 2022.

**Foreign Exchange:** The Australian dollar has given up its employment-inspired gains. The AUD/USD pair rose to a high of 0.7277 on Thursday of last week, from a low of 0.7177, but is now trading back under this low. Price action in the AUD/USD appears heavy, suggesting the AUD is set to move lower over the next 24 hours towards the 0.7130-0.7150 area.

Safer-haven currencies like the Japanese yen and Swiss franc were the strongest performers against

the US dollar in Friday's overnight trading session.

In alternative currencies, crypto pressures continued over the weekend. Bitcoin dropped more than 50% on Saturday from a record high and declines in Ether and in newer coins have outpaced Bitcoin's fall.

**Commodities:** World oil prices fell on Friday but rose for the fifth consecutive week. The West Texas Intermediate futures price has risen 20.2% over the past 5 weeks.

**COVID-19:** There are several news reports that infections in NSW have peaked. The raw data is still not showing a convincing trend that infections have peaked, although hospitalisations yesterday fell to 2,712, which is the lowest level since 17 January. The return of school children next week will be a test.

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

**Eurozone:** Consumer confidence deteriorated to minus 8.5 in January, from minus 8.4 in December, according to the European Commission's measure. The result, however, was not as weak as consensus estimates.

**Japan:** The consumer price index (CPI) rose 0.8% in the year to December, slightly below consensus expectations of a 0.9% increase. Rising energy prices drove the rise in the index. Excluding fresh food and energy, consumer prices fell 0.7% over the year.

**New Zealand:** The BusinessNZ manufacturing purchasing managers' index rose 2.5 points in December, to 53.7. All five sub-indexes increased over the month and are back within expansionary territory.

Net migration dropped sharply to 130 in November, following a revised migration inflow of 717 in October. A net migration loss of 4,020 people was recorded in the year to November.

**United Kingdom:** Consumer sentiment fell further in January, alongside surging COVID-19 cases. The GfK consumer confidence indicator dropped four points to -19.

British retail sales slumped in December after consumers did much of their Christmas shopping earlier than usual in November and many people stayed at home due to the spread of Omicron. Sales volumes fell by 3.7% from November, a far bigger hit than the 0.6% decline forecast by consensus and the biggest fall since January of last year when the country was under a coronavirus lockdown.

Compared with December 2020, sales volumes were down by 0.9%.

**United States:** Geopolitical tensions continue to boil away. The US government rejected pressure to impose immediate sanctions on Russia, saying doing so would limit future options and lose the effect of deterring aggression against Ukraine.

The US Federal Reserve meets this week. It is expected to signal its first interest-rate hike since 2018, paving the way for a March move.

The leading index - a forward-looking gauge of the economy's health - rose 0.8% in December. The Conference Board's leading index now stands at 120.8, following a 0.7% increase in November. The leading index ended 2021 on a rising trajectory, suggesting the economy will continue to expand well into the spring. But for the first quarter of 2022, headwinds from the Omicron variant, labour shortages and inflationary pressures - as well as the Federal Reserve's expected interest rate hikes - may moderate economic growth.

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

EZ Markit Mfg PMI Jan Prel. exp 58.2 prev 58.0 (8pm)  
 EZ Markit Serv. PMI Jan Prel. exp 52.5 prev 53.1 (8pm)  
 UK Markit Mfg PMI Jan Prel. prev 57.9 (8:30pm)  
 UK Markit/CIPS Serv. PMI Jan Prel. prev 53.6 (8:30pm)  
 US Chicago Fed Nat Act Index Dec prev 0.37 (12:30am)  
 US Markit Mfg PMI Jan Prel. exp 57.0 prev 57.7 (1:45am)  
 US Markit Services PMI Jan Prel. prev 57.6 (1:45am)

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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