

Friday, 24 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,528	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	30,677	0.6%	10 yr bond	96.25		0.17		90 day BBSW	1.74	-0.04
Japan Nikkei	26,171	0.1%	3 yr bond	96.54		0.17		2 year bond	2.76	-0.14
China Shanghai	3,480	1.6%	3 mth bill rate	97.27		0.07		3 year bond	3.19	-0.16
German DAX	12,913	-1.8%	SPI 200	6,416.0		-8		3 year swap	3.66	0.03
UK FTSE100	7,020	-1.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.69	-0.17
Commodities (close & change)*			TWI	62.1	-	-	61.8	United States		
CRB Index	296.7	-8.0	AUD/USD	0.6926	0.6928	0.6869	0.6907	3-month T Bill	1.54	0.01
Gold	1,822.77	-15.0	AUD/JPY	94.31	94.34	92.65	93.15	2 year bond	3.01	-0.04
Copper	8,415.00	-370.5	AUD/GBP	0.5647	0.5654	0.5621	0.5631	10 year bond	3.09	-0.07
Oil (WTI futures)	104.36	0.1	AUD/NZD	1.1014	1.1030	1.0970	1.0984	Other (10 year yields)		
Coal (thermal)	397.05	5.1	AUD/EUR	0.6555	0.6579	0.6517	0.6561	Germany	1.43	-0.21
Coal (coking)	382.67	-2.3	AUD/CNH	4.6486	4.6492	4.6090	4.6285	Japan	0.24	-0.01
Iron Ore	117.20	1.1	USD Index	104.20	104.77	104.06	104.43	UK	2.32	-0.18

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: US bonds rallied hard in Europe (i.e. bond yields fell) but then sold off in US trading. There were hawkish remarks made by US Fed Chair Powell and Fed member Michelle Bowman.

Oil continued to retreat, taking the weekly loss to nearly 10%.

Share Markets: US share markets finished in the black, after clawing back earlier losses. The Dow rose 194 points (or +0.6%) and the S&P 500 jumped 36 points (or 1.0%).

Interest Rates: US bonds rallied early in the session (i.e. bond yields fell), as markets digested the weak economic data. That is, bond yields fell. However, this bond rally lost steam after hawkish remarks from the Fed. The US 2-year bond yield fell 19 basis points to a low of 2.87% before closing down just 4 basis points at 3.01%. The US 10-year yield was down 16 basis points to a low of 3.00% before closing down only 7 basis points at 3.09%.

Interest-rate markets are currently almost fully priced for the Fed funds rate to be lifted 75 basis points at the next meeting next month. By year's end, markets have the fed funds rate around 185 basis points higher.

The Australia 3-year government bond yield (futures) fell from to 3.35% and the 10-year yield slid to 3.85%. Interest-rate markets are currently attaching a 73% probability of a 50 basis point rate hike next week from the RBA. By year's end, the

market expects the cash rate to be at 3.17% - this has shifted markedly lower from the 3.83% that was priced on 15 June.

Foreign Exchange: The AUD/USD fell to an overnight low of 0.6869, before recovering modestly to near the 0.6910 handle. The AUD/USD remains heavy and whilst support remains at 0.6850 it could give way in the near term.

Commodities: Oil dropped overnight on growing fears of a recession in the major economies. The West Texas Intermediate price of oil fell 0.4% overnight and has fallen nearly 10% since the close last Friday.

Australia: There were no major economic data releases yesterday.

Eurozone: The purchasing managers' indexes (PMIs) for June were decidedly soft. The manufacturing PMI slipped to 52.0, from 54.6 in May. The services PMI pulled back to 51.9, from 56.1, and the composite dropped to 51.9, from 54.8. All three indexes printed below consensus expectations. S&P cited stalling demand as the pent-up demand from the pandemic fades.

United Kingdom: Manufacturing activity continued to expand in June, albeit at a slower pace. The manufacturing PMI eased to 53.4 from 54.6 in May. The reading remains comfortably within expansionary territory, despite marking the weakest outcome since July 2020. The services PMI was

unchanged in June at 53.4, beating market expectations of a half point decline. S&P noted the slide in new and declining optimism suggest that UK faces "a troubling combination of recession and elevated inflation".

United States: US Federal Reserve Chair Jerome Powell reiterated that his commitment to fight inflation is "unconditional" in his second day of congressional testimony. Powell also said a recession wasn't inevitable, the economy is very strong and that the Fed is focused on "preserving a strong labour market." He downplayed concerns about deteriorating liquidity in Treasury markets, arguing that they are functioning "reasonably well."

Federal Reserve Governor Michelle Bowman called for a more aggressive path of rate hikes than most of her fellow central bankers currently contemplate, saying she wants rates to rise until they exceed near-term inflation expectations. "Based on current inflation readings, I expect that an additional rate increase of 75 basis points will be appropriate at our next meeting as well as increases of at least 50 basis points in the next few subsequent meetings, as long as the incoming data support them," Bowman said in remarks prepared for delivery to Massachusetts Bankers Association conference. "Depending on how the economy evolves, further increases in the target range for the federal funds rate may be needed after that."

The preliminary PMI indexes for June surprised to the downside. Manufacturing fell to 52.4, from 57.0 in May, and the services PMI slipped 1.7 points to 51.6. Both prints were below consensus forecasts. S&P cited a notable decline in demand causing new orders to contract for the first time since July 2020 and manufacturing production also fell to a 24-month low of 49.6 (and contractionary territory). The survey also suggests there are emerging signs that pricing pressures have peaked.

The Kansas Fed Manufacturing survey dropped 11 points to 12 in June, close to the consensus estimate of 13.

Today's key data and events:

UK GfK Cons. Sentiment Jun exp -40 prev -40 (9:01am)

JN CPI May y/y exp 2.5% prev 2.5% (9:30am)

EZ Ger. IFO Business Climate Survey Jun exp 92.8 prev 93.0 (6pm)

US UoM Cons. Sent. Jun Final exp 50.2 prev 50.2 (12am)

US New Home Sales May exp -0.2% prev -16.6% (12am)

CH Current Account Q1 Final prev US\$89.5bn (TBC)

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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The Detail

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