

Tuesday, 24 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)			
S&P/ASX 200	7,149	0.0%			Last	Overnight Chg		Australia			
US Dow Jones	31,880	2.0%	10 yr bond		96.64	-0.01		90 day BBSW	1.05	0.01	
Japan Nikkei	27,002	1.0%	3 yr bond		97.06	-0.03		2 year bond	2.50	0.02	
China Shanghai	3,298	0.0%	3 mth bill rate		98.72	-0.02		3 year bond	2.81	0.02	
German DAX	14,175	1.4%	SPI 200		7,172.0	19		3 year swap	3.14	0.00	
UK FTSE100	7,513	1.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.33	0.01	
Commodities (close & change)*			TWI		62.6	-	-	62.4	United States		
CRB Index	315.2	2.5	AUD/USD		0.7045	0.7127	0.7050	0.7106	3-month T Bill	0.97	-0.03
Gold	1,853.59	7.1	AUD/JPY		90.10	91.05	90.07	90.83	2 year bond	2.62	0.04
Copper	9,568.50	127.5	AUD/GBP		0.5642	0.5671	0.5643	0.5646	10 year bond	2.85	0.07
Oil (WTI futures)	110.29	0.0	AUD/NZD		1.1004	1.1011	1.0973	1.0991	Other (10 year yields)		
Coal (thermal)	383.10	-9.8	AUD/EUR		0.6670	0.6716	0.6642	0.6646	Germany	1.02	0.07
Coal (coking)	516.33	3.8	AUD/CNH		4.7197	4.7525	4.7204	4.7336	Japan	0.24	0.00
Iron Ore	134.20	0.3	USD Index		103.15	102.98	102.04	102.07	UK	1.97	0.08

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

Main Themes: Investor sentiment towards risk improved overnight after the Chinese government announced more economic stimulus and US President Biden announced he was considering cutting the tariffs on Chinese goods introduced by the Trump administration. The major global equity indices rallied and bond yields increased.

Share Markets: US share markets finished sharply higher, helped by US President Biden signalling he'd consider removing the Trump administration's tariffs on Chinese goods. The S&P 500 index added 72 points (or 1.9%) and the Dow rose 618 points (or +2.0%). The Dow daily point rise was the sharpest in almost three weeks of trading. Meanwhile, the Nasdaq rose 181 points (or 1.6%).

Interest Rates: US bond yields rose across the yield curve, as investor sentiment towards risk improved. The US 2-year yield rose 4 basis points to 2.62% and the 10-year yield lifted 7 basis points to 2.85%. Interest-rate markets are currently pricing the Fed funds rate to be 52 basis points higher at the next meeting in June and 210 basis points higher by the end of this year.

The Australian 3-year government bond yield (futures) rose from 2.88% to 2.94%, while the 10-year yield rose from 3.30% to 3.37%. Interest-rate markets currently price the cash rate to be 33 basis points higher by the June meeting and the cash rate to be around 2.50% 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 very tight range in overnight trading of around 40 pips, after getting a lift during the day trade. It is trading near its 3-week high of 0.7127 struck overnight.

Fresh stimulus from the Chinese government has helped underpin demand for the Aussie dollar. Not surprisingly, news of the stimulus pushed the USD/CNY pair lower towards 6.6465.

The lift in risk sentiment has led to a sell off in the USD to a one-month low of 102.04. Against this backdrop and hawkish remarks from the European Central Bank (ECB) President sent the EUR/USD to a one-month high of 1.0697.

Commodities: The improvement in risk sentiment contributed to widespread increases in commodity prices overnight.

Australia: The Reserve Bank Assistant Governor Kent said yesterday that the central bank currently has no plans to sell bonds from its portfolio, even as he acknowledged it has now embarked on "quantitative tightening."

China: China's Premier Li has announced 33 measures to boost economic activity. It includes offering more than 140 billion yuan (US\$21 billion) in tax relief to businesses and consumers, such as rebates to companies, reduced car-purchase levies and extending a delay in firms' social-insurance

contributions.

Europe: Germany's IFO business climate index rose to 93.0 in May, from 91.9 in April. The result was above consensus estimates. The current conditions part of the index improved 2.2 points to 99.5 and the expectations index only inched higher from 86.8 to 86.9.

ECB President Lagarde signalled hikes of 25 basis points are likely in July and September, as well as an end to quantitative easing (QE). Other ECB speakers included Holzmann, Nagel and Villeroy. These speakers referred to the importance of price stability, the risks of higher wages in the second half of this year and the need to normalise monetary policy.

United Kingdom: The Governor of the Bank of England (BoE) has pushed back at comments by a predecessor that the BoE's actions during the pandemic helped push inflation to 40-year highs. Andrew Bailey instead pointed to a reduction in the UK's workforce as a much more likely cause of high inflation. Bailey also reiterated hints that the Bank could hike interest rates further to help combat runaway inflation. The BoE's decision-making committee set the base rate to 1% earlier this month, its highest point since 2009.

United States: US President Joe Biden said he'll review Trump-era tariffs imposed on imports from China amid growing calls from businesses to remove the levies. Biden said he's considering removing some of the tariffs and would talk with US Treasury Secretary Janet Yellen about it after returning to the US from Asia.

The Chicago Federal National Activity Index rose to 0.47 in April, from a downwardly revised result of 0.36 in March. The result was below consensus estimates and still indicates above-trend growth in the US.

Today's key data and events:

NZ Retail Sales Q1 exp 0.3% prev 8.6% (8:45am)

EZ Manufacturing PMI May exp 54.7 prev 55.1 (8pm)

EZ Services PMI May exp 54.7 prev 55.1 (8pm)

EZ Composite PMI May exp 55.1 prev 55.8 (8pm)

US Manufacturing PMI May exp 57.7 prev 55.1 (8pm)

US Services PMI May exp 55.2 prev 55.1 (8pm)

US Composite PMI May exp 55.7 prev 55.8 (8pm)

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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