

Thursday, 26 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,155	0.4%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	32,120	0.6%	10 yr bond	96.76		0.02		90 day BBSW	1.06	-0.01
Japan Nikkei	26,678	-0.3%	3 yr bond	97.19		0.01		2 year bond	2.39	-0.11
China Shanghai	3,256	1.2%	3 mth bill rate	98.71		-0.03		3 year bond	2.73	-0.09
German DAX	14,008	0.6%	SPI 200	7,157.0		13		3 year swap	3.01	-0.01
UK FTSE100	7,523	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.24	-0.08
<b>Commodities (close &amp; change)*</b>			TWI	62.5	-	-	62.7	<b>United States</b>		
CRB Index	314.6	0.8	AUD/USD	0.7109	0.7119	0.7036	0.7086	3-month T Bill	1.02	-0.02
Gold	1,853.46	-13.0	AUD/JPY	90.18	90.52	89.31	90.20	2 year bond	2.49	0.01
Copper	9,375.00	-84.0	AUD/GBP	0.5673	0.5679	0.5626	0.5634	10 year bond	2.75	-0.01
Oil (WTI futures)	110.33	0.6	AUD/NZD	1.1005	1.1028	1.0922	1.0942	<b>Other (10 year yields)</b>		
Coal (thermal)	299.00	-23.3	AUD/EUR	0.6622	0.6655	0.6605	0.6634	Germany	0.95	-0.02
Coal (coking)	509.00	-7.3	AUD/CNH	4.7327	4.7606	4.7204	4.7564	Japan	0.21	-0.02
Iron Ore	130.60	-0.9	USD Index	101.78	102.45	101.73	102.10	UK	1.91	0.02

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:** Risk sentiment rebounded alongside the release of the Fed's May meeting minutes. The minutes reinforced market expectations for further 50 basis point rate hikes at the Fed's June and July meetings. US equity markets advanced, the yield curve flattened, and the US dollar strengthened.

**Share Markets:** US share markets traded broadly flat, before rallying alongside the release of the Fed minutes. The NASDAQ rose 1.5%, while the S&P 500 and the Dow Jones climbed 1.0% and 0.6%, respectively.

The ASX 200 closed 0.4% higher yesterday.

**Interest Rates:** The US yield curve flattened as short-end yields edged higher and longer dated yields eased. The US 2-year treasury yield rose 1 basis point to 2.49%, while the 10-year yield fell 1 basis point to 2.75%.

A 50 basis point hike in the Fed funds rate is fully priced for the Fed's June meeting.

The Australian 3-year government bond (futures) yield fell from a high of 2.85% to a low of 2.79%, before setting at 2.82%. The 10-year government bond (futures) yield fell from a high of 3.28% to a low of 3.21%, before rebounding to close at 3.24%.

Interest rate markets are pricing the cash rate to be 30 basis points higher following the Reserve Bank's (RBA) June meeting.

**Foreign Exchange:** The Aussie dollar softened

overnight, ranging between a high of 0.7119 and a low of 0.7036. The AUD/USD pair is currently trading around 0.7090.

The US dollar strengthened against a basket of its G-10 peers. The USD index climbed from a low of 101.73 to a high of 102.45, before consolidating at around 102.10.

**Commodities:** Commodity prices were broadly weaker overnight. Gold and copper softened, while oil bucked the trend and edged higher.

**Australia:** Construction activity fell in the first quarter of 2022, alongside disruption from Omicron and flooding across parts of NSW and Queensland.

Construction work done slipped 0.9% in the March quarter, while the December quarter outcome was revised up to 0.6%, from -0.4% previously.

The largest declines in construction activity were observed in NSW and Queensland, due mostly to flooding across the two states over the March quarter. Meanwhile, construction work accelerated in Victoria and WA.

A slow down in building construction in both the residential and non-residential sectors underpinned the decline in activity, while engineering construction was also softer in the quarter.

Reserve Bank (RBA) Assistant Governor Ellis gave a speech to the Urban Development Institute of Australia (UDIA) National Congress yesterday. The

speech summarised how Australian's preferences for housing changed during the pandemic, the related impact this had on housing demand and how housing supply has reacted to this change.

**New Zealand:** The Reserve Bank of New Zealand (RBNZ) lifted the official cash rate (OCR) by 50 basis points yesterday, as widely expected. The move takes the OCR to 2.00%, up from 0.25% at the beginning of the cycle. The RBNZ also lifted its expectations for the path of the OCR, projecting a peak of close to 4.0% in the second half of 2023, compared to 3.4% previously. The RBNZ also expects the majority of its policy tightening to be 'front loaded'; the OCR is expected to reach 3.5% by the end of this year.

**United States:** Durable goods orders advanced 0.4% in April, just shy of consensus expectations of a 0.6% rise. Meanwhile, March's outcome was revised down to 0.6%, from 1.1% previously. The result highlights sustained demand for business equipment and merchandise, despite rising cost pressures.

The minutes to the Fed's May meeting revealed that members voted unanimously in favour of a 50 basis point rate hike, while consecutive 50 basis point increases at the June and July meetings were largely endorsed. A larger 75 basis point increase was not considered. Members highlighted that inflation risks remained tilted to the upside as the war in Ukraine and lockdowns in China present considerable uncertainty and the economy remains on strong footing. The committee agreed it was important to move "expeditiously to a more neutral policy stance" and noted that a "restrictive stance" may be appropriate in the future, subject to the evolution of the economy and inflation.

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

AU Private Capital Expenditure Q1 exp 1.1% prev 1.1%  
(11:30am)  
US GDP Annualised Q1 exp -1.3% prev -1.4% (10:30pm)  
US Core PCE Q1 exp 5.2% prev 5.2% (10:30pm)  
US Pending Home Sales Apr exp -2.0% prev -1.2% (12am)  
US Kansas City Fed Index May exp 18 prev 25 (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.

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