

Monday, 27 June 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,579	0.8%			Last	Overnight Chg		Australia		
US Dow Jones	31,501	2.7%	10 yr bond	96.23			0.02	90 day BBSW	1.74	0.00
Japan Nikkei	26,492	1.2%	3 yr bond	96.57			0.03	2 year bond	2.75	-0.15
China Shanghai	3,511	0.9%	3 mth bill rate	97.27			0.01	3 year bond	3.20	-0.15
German DAX	13,118	1.6%	SPI 200	6,573.0			103	3 year swap	3.66	0.04
UK FTSE100	7,209	2.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.72	-0.13
Commodities (close & change)*			TWI	61.8	-	-	61.8	United States		
CRB Index	298.5	1.9	AUD/USD	0.6907	0.6958	0.6889	0.6942	3-month T Bill	1.60	0.04
Gold	1,826.88	4.1	AUD/JPY	93.15	94.02	92.79	93.84	2 year bond	3.06	0.05
Copper	8,392.00	-23.0	AUD/GBP	0.5631	0.5664	0.5613	0.5658	10 year bond	3.13	0.04
Oil (WTI futures)	107.62	3.4	AUD/NZD	1.0984	1.1013	1.0953	1.0991	Other (10 year yields)		
Coal (thermal)	371.50	-9.8	AUD/EUR	0.6561	0.6592	0.6545	0.6578	Germany	1.44	0.01
Coal (coking)	377.50	-5.2	AUD/CNH	4.6285	4.6470	4.6116	4.6411	Japan	0.23	-0.01
Iron Ore	117.45	3.3	USD Index	104.43	104.51	103.95	104.19	UK	2.30	-0.01

Data as at 7:45am 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 improved on Friday as consumer inflation expectations eased from initial estimates and comments from Federal Reserve officials buoyed sentiment. Equity markets bounced back strongly, bond yields rose, and the US dollar was weaker against a basket of major currencies.

Share Markets: Equity markets bounced back strongly on Friday as risk sentiment improved. The S&P 500 jumped by 3.1%, the Nasdaq surged by 3.3%, while the Dow Jones was 2.7% higher. In weekly terms, the S&P 500 ended the week 6.4% higher, following three consecutive weekly declines. The ASX 200 ended Friday 0.8% higher. Futures are pointing to a strongly positive open today.

Interest Rates: The 10-year treasury yield rose by 4 basis points, to 3.13%. The 2-year yield was 5 basis points higher, at 3.06%. Markets currently price interest rates to be 69 basis points higher at the next meeting in July and 180 basis points higher by the end of 2022.

The Australian 10-year government bond yield (futures) was 2 basis points lower, at 3.77%. The 3-year government bond yield (futures) fell by 3 basis points, to 3.44%.

Foreign Exchange: The US dollar declined against a basket of major currencies. The USD Index fell from a high of 104.51 to a low of 103.95, before retracing to 104.19.

The AUD/USD pair strengthened against the backdrop of a weaker US dollar and improving risk sentiment. The pair rose from a low of 0.6889 to a high of 0.6958. It was trading around 0.6942 at the time of writing.

Commodities: Copper and coal were weaker. Oil, gold and iron ore all strengthened.

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

China: The final estimate for the current account surplus for Q1 was revised down to \$88.9 billion. This was lower than the initial estimate of \$89.5 billion. The current account surplus narrowed from \$118.4 billion in Q4 of 2021. The narrowing primarily reflected a narrowing in the trade surplus from \$167.6 billion in Q4 of 2021 to \$128.3 billion in Q1 of 2022.

Eurozone: Business sentiment deteriorated in Germany in June as elevated inflationary pressures and energy concerns weighed on business confidence. The IFO business climate survey declined from 93.0 in May to 92.3 in June. Businesses' assessment of current conditions declined from 99.6 to 99.3, while expectations also fell from 86.9 to 85.8 in June.

Japan: Inflation in May was above the Bank of Japan's inflation target of 2.0% for the second consecutive month. The consumer price index rose by 2.5% over the year to May. This was in line with consensus expectations and was unchanged from

the 2.5% gain over the year to April. Core inflation, excluding food but including fuel costs, rose by 2.1% over the year to May. This was also in line with consensus expectations and unchanged from the previous month.

United Kingdom: Consumer confidence fell to a record low level in June as growing cost of living pressures and the prospect of further industrial action across the country weigh on confidence. The GfK consumer sentiment survey fell to -41 in June. This was down from the -40 outcome in May and was the lowest level in the history of the survey, going back around 50 years. Confidence is weaker than during the beginning of the COVID-19 pandemic, the GFC, and the 2016 Brexit referendum.

United States: Consumer sentiment sank to a record low in June as elevated inflation continues to weigh on household budgets and confidence. The final reading of the University of Michigan consumer sentiment survey slumped to 50.0 in June. The final reading was revised down from an initial estimate of 50.2. Views on current conditions were revised down to 53.8, from an initial estimate of 55.4. Expectations were revised higher, to 47.5 from the initial estimate of 46.8. However, despite the weak mood among consumers, inflation expectations were revised down. Expectations for inflation over the next year were revised down to 5.3%, from an initial estimate of 5.4%. Expectations for inflation 5-10 years ahead, an estimate of medium-term consumer inflation expectations, were revised down from 3.3% to 3.1% in the final June reading.

New home sales surprised to the upside in May, jumping by 10.7% in the month. This was well-above consensus expectations of -0.2% and the April outcome of -12.0%. Sales unexpectedly jumped as borrowers sought to lock in their mortgage rates in anticipation of further increases in interest rates. The increase comes after four consecutive months of decline. Despite the rise in the month, sales of new homes are likely to continue to be impacted by higher mortgage costs and weakened affordability.

Federal Reserve Bank of San Francisco President Mary Daly noted that a 75-basis-point hike “looks like what we’ll need to do” to address elevated inflationary pressures at the July meeting. However, she noted that she’ll be “watching to see any signs that we are less sure about the tightening level that’s already taking place.”

Today’s key data and events:

CH Industrial Profits May y/y prev 3.5% (11:30am)

US Durable Goods Orders May Prel. exp 0.2% prev 0.5% (10:30pm)

US Pending Home Sales May exp -3.9% prev -3.9% (12am)

US Dallas Fed Index Jun exp -6.5 prev -7.3 (12:30am)

Times are AEST. 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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