

Friday, 27 May 2022

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |             |                      |         | Interest rates (close & change) |      |       |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200                              | 7,106    | -0.7% |  |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |      |       |
| US Dow Jones                             | 32,637   | 1.6%  | 10 yr bond                               | 96.75   |             |                      |         | 90 day BBSW                     | 1.09 | 0.02  |
| Japan Nikkei                             | 26,605   | -0.3% | 3 yr bond                                | 97.17   |             |                      |         | 2 year bond                     | 2.38 | -0.01 |
| China Shanghai                           | 3,273    | 0.5%  | 3 mth bill rate                          | 98.71   |             |                      |         | 3 year bond                     | 2.72 | -0.01 |
| German DAX                               | 14,231   | 1.6%  | SPI 200                                  | 7,176.0 |             | 69                   |         | 3 year swap                     | 3.00 | -0.03 |
| UK FTSE100                               | 7,565    | 0.6%  | FX Last 24 hrs                           | Open    | High        | Low                  | Current | 10 year bond                    | 3.20 | -0.04 |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 62.7    | -           | -                    | 62.6    | <b>United States</b>            |      |       |
| CRB Index                                | 318.7    | 4.1   | AUD/USD                                  | 0.7086  | 0.7110      | 0.7057               | 0.7098  | 3-month T Bill                  | 1.02 | -0.03 |
| Gold                                     | 1,850.63 | -2.8  | AUD/JPY                                  | 90.20   | 90.66       | 89.65                | 90.24   | 2 year bond                     | 2.48 | -0.02 |
| Copper                                   | 9,350.50 | -24.5 | AUD/GBP                                  | 0.5634  | 0.5648      | 0.5617               | 0.5631  | 10 year bond                    | 2.75 | 0.00  |
| Oil (WTI futures)                        | 114.21   | 0.1   | AUD/NZD                                  | 1.0942  | 1.0969      | 1.0935               | 1.0954  | <b>Other (10 year yields)</b>   |      |       |
| Coal (thermal)                           | 340.15   | 13.7  | AUD/EUR                                  | 0.6634  | 0.6643      | 0.6594               | 0.6617  | Germany                         | 1.00 | 0.05  |
| Coal (coking)                            | 497.67   | -11.3 | AUD/CNH                                  | 4.7564  | 4.8061      | 4.7537               | 4.8043  | Japan                           | 0.24 | 0.03  |
| Iron Ore                                 | 131.90   | 2.3   | USD Index                                | 102.10  | 102.27      | 101.74               | 101.83  | UK                              | 1.97 | 0.06  |

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:** US equity markets recorded solid increases overnights. The US dollar was slightly weaker and US bond yields little changed amid mixed US economic data.

**Share Markets:** US share markets extended their rally, as solid retail earnings buoyed consumer stocks. The S&P 500 index jumped 2%, the Dow rose 1.6% and the Nasdaq lifted 2.7%.

**Interest Rates:** US bond yields were little changed overnight. The US 2-year yield fell 2 basis points to 2.48% and the 10-year yield closed unchanged at 2.75%.

The Australian 3-year government bond yield (futures) again ranged between 2.79% and 2.85%, while the 10-year yield rose from 3.25% to 3.29% via 3.20%. Interest-rate markets are currently fully priced for a rate hike of 25 basis points in June.

**Foreign Exchange:** The US dollar index weakened overnight led by stronger demand for EUR/USD. The AUD stuck to a narrow trading range of around 50 pips overnight between 0.7057 and 0.7110. In the very short term, the AUD/USD seems relegated to trade in a range of 0.7000-0.7180.

**Commodities:** Oil inched higher in overnight trade while gold fell.

Russia's President, Vladimir Putin, told Italy's Prime Minister he's willing to facilitate grain and fertilizer exports as global concern mounts about food shortages and rising prices, but only if sanctions are

lifted.

**Australia:** New private capital expenditure (capex) declined by 0.3% in the March quarter. This follows a revised 2.3% increase (previously 1.1%) in the December quarter. Supply disruptions, flooding and labour shortages impeded capex in the quarter.

The weakness in the quarterly result was driven by a fall in spending on buildings and structures, which declined 1.7% in the March quarter. Conversely, spending on machinery and equipment rose by 1.2% in the period.

Generous tax incentives have helped to entice businesses to increase spending on machinery and equipment. Additionally, the economic recovery and increase in demand has incentivised businesses to expand their capacity.

Business spending plans were upgraded. The current financial year is nearly over and spending is set to be nearly 15% bigger than in the previous year. However, estimate 2 for 2022-23 suggests another big lift in spending by businesses. Indeed, if the estimates come to fruition, spending could be 16.6% higher in 2022-23 – the strongest annual growth in 11 years.

**United States:** The second estimate for US GDP revealed a slight revision for Q1, from a fall of 1.4% to a fall of 1.5% in annualised terms. Inventories were a bigger drag, although personal consumption was revised up.

Pending home sales fell 11.5% in April to the lowest level since April of 2020. Rising mortgage rates and stretched affordability are hurting sales.

The Kansas City Fed manufacturing activity survey slid 2 points to 23 in May, but beat consensus expectations (of 15).

Applications for US unemployment insurance declined last week by more than forecast, underscoring a persistently tight labour market. Initial unemployment claims decreased by 8,000 to 210,000 in the week ended May 21.

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

NZ ANZ Cons. Confidence May prev 84.4 (8am)  
AU Retail Sales Apr exp 1.3% prev 1.6% (11:30am)  
CH Industrial Profits Apr y/y (11:30am)  
EZ M3 Money Supply Apr exp 6.3% prev 6.3% (6pm)  
US Personal Income Apr exp 0.5% prev 0.5% (10:30pm)  
US Personal Spending Apr exp 0.7% prev 1.1% (10:30pm)  
US PCE Core Deflator Apr exp 0.3% prev 0.3% (10:30pm)  
US UoM Cons. Sent. May Final exp 59.1 prev 59.1 (12am)

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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