

Thursday, 28 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,261	-0.8%			Last	Overnight Chg		Australia		
US Dow Jones	33,302	0.2%	10 yr bond	96.86				90 day BBSW	0.53	0.00
Japan Nikkei	26,387	-1.2%	3 yr bond	97.15				2 year bond	2.38	0.03
China Shanghai	3,100	2.5%	3 mth bill rate	98.75				3 year bond	2.68	0.03
German DAX	13,794	0.3%	SPI 200	7,285.0				3 year swap	2.97	0.06
UK FTSE100	7,426	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.06	-0.05
Commodities (close & change)*			TWI	63.0	-	-	62.9	United States		
CRB Index	305.7	3.0	AUD/USD	0.7122	0.7191	0.7101	0.7120	3-month T Bill	0.80	-0.01
Gold	1,886.10	-19.4	AUD/JPY	90.62	91.99	90.46	91.43	2 year bond	2.59	0.11
Copper	9,860.50	86.7	AUD/GBP	0.5662	0.5710	0.5664	0.5680	10 year bond	2.83	0.11
Oil (WTI futures)	101.68	-0.3	AUD/NZD	1.0852	1.0917	1.0851	1.0887	Other (10 year yields)		
Coal (thermal)	314.90	-3.3	AUD/EUR	0.6695	0.6769	0.6696	0.6747	Germany	0.80	-0.01
Coal (coking)	494.00	33.0	AUD/CNH	4.6930	4.7327	4.6831	4.6914	Japan	0.25	0.00
Iron Ore	141.00	-0.3	USD Index	102.34	103.28	102.22	102.95	UK	1.81	0.02

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: The odds of a rate hike at next week's Reserve Bank meeting have shortened materially after data yesterday showed Australian consumer price inflation is running at its highest level in more than two decades. Meanwhile, US equities stabilised, US bond yields rose and the US dollar touched a five-year high.

Share Markets: US equities steadied after the recent heavy sell-off. The Dow and S&P 500 each edged up 0.2% while the Nasdaq closed unchanged. Meanwhile, the ASX 200 slipped 0.8%.

Interest Rates: The US 10-year and 2-year treasury yields rose 11 basis points to 2.83% and 2.59%, respectively.

Markets are fully priced for the Fed to hike 50 basis points at each of the next three meetings in May, June and July.

The Australian 10-year (futures) yield rose 4 basis points to 3.15% and the 3-year futures yield increased 3 basis points to 2.86%.

Markets are now fully priced for a 15 basis point rate hike at the Reserve Bank (RBA) meeting next week following yesterday's bumper inflation data. A subsequent 25 basis point hike is fully priced for June. There is an 87% probability attached to a larger 50 basis point in June. Market pricing points to the cash rate reaching nearly 2.50% by the end of the year.

Foreign Exchange: The AUD/USD pair fluctuated

between 0.7191 and 0.7101 – a 2-month low – despite expectations that the RBA will tighten sooner. The pair hit the low alongside a stronger US dollar, which touched its highest level since January 2017, a five-year high.

Commodities: The West Texas Intermediate futures price for crude oil fluctuated in a narrow range. It is currently sitting at around US\$102 a barrel, alongside Germany's support for a gradual ban on Russian crude and headwinds from China's lockdowns.

Meanwhile, gold slipped and copper rose.

Australia: Consumer price pressures are mounting at a fast rate, blowing the Reserve Bank's forecasts and consensus forecasts out of the water. The prospect of a rate hike at next week's RBA meeting has risen considerably.

In the March quarter, the headline consumer price (CPI) index rose a whopping 2.1% in quarterly terms to be 5.1% higher in annual terms. This is the hottest reading in quarterly and annual terms since the GST was introduced in the early 2000s. It was also well above consensus forecasts for a rise of 1.7%.

And trimmed mean inflation, which strips out more volatile price changes, will be making the Reserve Bank (RBA) sweat. This measure rose 1.4% in the quarter – the biggest quarterly jump since the December quarter in 1990 – to be 3.7% higher in

annual terms. It also outstripped consensus forecasts that centred on a rise of 1.2%.

Annual non-discretionary inflation hit a huge 6.6%, more than double discretionary inflation, consistent with consumers reducing discretionary spending in lockdowns.

Ahead of yesterday's data, our central expectation has been for the RBA to kick off hiking from June. Earlier in April, the central bank stated there would be important information "over the coming months" on inflation and labour costs, laying the groundwork for a move in June (after the inflation report yesterday and the wages report on May 18). However, that assumed the outlook would evolve as the RBA expected. It clearly hasn't on the inflation front.

With inflation running materially hotter than expected, the odds of a rate hike at next week's meeting have shortened significantly.

United States: Pending home sales fell 1.2% in March to be 8.9% lower over the year. This marks the fifth consecutive month of declines amid rising borrowing costs, high prices and low inventory.

Today's key data and events:

NZ Trade Balance Mar prev -\$385m (8:45am)
JN Industrial Prod'n Mar Prel. exp 0.5% prev 2.0% (9:50am)
NZ ANZ Bus. Confidence Apr prev -41.9 (11am)
AU Trade Price Indices Q1 (11:30am)
 Import Prices exp 3.2% prev 5.8%
 Export Prices exp 11.0% prev 3.5%
EZ Economic Confidence Apr exp 108.0 prev 108.5 (7pm)
EZ Consumer Confidence Apr Final prev -16.9 (7pm)
US GDP Annualised Q1 exp 1.1% prev 6.9% (10:30pm)
US Kansas City Fed index Apr exp 35 prev 37 (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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