Morning report

Monday, 2 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,435	1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	32,977	-2.8%	10 yr bond	96.71		-0.13		90 day BBSW	0.71	0.01
Japan Nikkei	26,848	1.7%	3 yr bond	97.03		-0.12		2 year bond	2.45	0.05
China Shanghai	3,193	2.4%	3 mth bill rate	98.79		-0.02		3 year bond	2.71	0.03
German DAX	14,098	0.8%	SPI 200	7,315.0		-94		3 year swap	3.13	0.07
UK FTSE100	7,545	0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.13	0.04
Commodities (close & change)*			TWI	62.6	-	-	63.1	**United States**		
CRB Index	308.3	0.2	AUD/USD	0.7101	0.7180	0.7059	0.7070	3-month T Bill	0.81	0.01
Gold	1,896.93	2.5	AUD/JPY	92.93	93.48	91.59	91.78	2 year bond	2.71	0.10
Copper	9,772.50	72.5	AUD/GBP	0.5699	0.5727	0.5609	0.5618	10 year bond	2.93	0.11
Oil (WTI futures)	104.69	-0.7	AUD/NZD	1.0943	1.0978	1.0925	1.0930	**Other (10 year yields)**		
Coal (thermal)	287.30	-16.4	AUD/EUR	0.6763	0.6809	0.6693	0.6703	Germany	0.94	0.04
Coal (coking)	521.67	-3.3	AUD/CNH	4.7289	4.7639	4.6880	4.6978	Japan	0.23	0.00
Iron Ore	144.95	-1.8	USD Index	103.62	103.67	102.82	102.96	UK	1.91	0.03

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: US share markets sold off sharply on Friday, led by selling in technology shares. The Nasdaq recorded its sharpest monthly percentage fall since October 2008 and is at its lowest level since late 2020. The S&P 500 index also fell sharply, recording its biggest daily percentage fall in nearly 3 years.

US bond yields shot up with the US 2-year bond yield at its highest in 3½ years. US economic data released on Friday revealed inflationary pressures remain strong with the Fed's widely watched inflation gauge remaining elevated.

The Australian dollar dropped more than 1 US cent but key support near US 70 cents continues to hold. The batch of weak Chinese economic data published after the market's close on Saturday could add to selling pressures today.

Share Markets: Share markets sold off heavily on Friday, led by technology shares. Amazon led the decline amid the bellwether tech shares, dropping by the most in daily percentage terms in 19 months.

At the close, the Nasdaq finished 537 points lower or -4.2%. It is the lowest level since November 2020. For the month, the Nasdaq dropped 13.3% - the biggest monthly plunge since October 2008.

The S&P 500 fell 156 points or -3.6%. It is the biggest daily percentage drop in nearly three years, taking the index to its lowest since 19 May 2021. For the month, the S&P 500 fell 8.8% - the sharpest monthly decline since March 2020.

Meanwhile, the Dow dropped 939 points or -2.8% to its lowest level since 14 March 2022.

Anticipation of further tightening from the US Federal Reserve, the war in Ukraine and China's zero-covid strategy are taking their toll on riskier asset classes.

Interest Rates: US bond yields rose sharply on Friday. The US 2-year bond yield jumped 10 basis points to 2.71% - the highest close since mid December 2018. It closed below its intraday high of 2.76%. The US 10-year bond yield spiked 11 basis points, closing at 2.93% - just near its intraday high.

Interest-rate markets are currently pricing the Fed to raise rates 50 basis points this month and for the Federal funds rate to be 270 basis points higher by the end of this year.

The Australian 3-year government bond yield (futures) rose from 2.85% to 3.00%, while the Australian 10-year yield rose from 3.16% to 3.30%.

Interest-rate markets are currently pricing a probability of 96% of a 15 basis point rate hike from the Reserve Bank (RBA) tomorrow. There is a probability of 58% attached to a move of 25 basis points tomorrow. By the end of this year, interest-rate markets are expecting the cash rate to be around 2.50%, up from the current rate of 0.10%. This represents a significant amount of tightening expected by markets.

Foreign Exchange: The Australian dollar fell from an intraday high of 0.7180 on Friday to an intraday low of 0.7059 and is currently trading near this low. Strong support for the AUD/USD sits at 0.6970-0.7000 and we expect that should hold in the near term, especially with our expectation that the Reserve Bank will start its tightening cycle tomorrow. However, the weak Chinese economic data published after the market's close on Saturday could place fresh downward pressure on the AUD in trade today.

Commodities: Oil eased on Friday, but gold rose, as data revealed inflation pressures are growing in the US.

Australia: Credit growth moderated slightly in March after a period of strong gains. Credit extended to the private sector expanded 0.4% in the month and 7.8% over the year. March marked the slowest monthly growth rate in 11 months.

Housing credit grew by 0.6% to be 7.9% higher over the year. The annual growth rate was the highest in more than 11½ years. Owner-occupier credit grew 0.6% to be 9.1% higher over the year. Credit to investors grew 0.6% to be up 5.3% in annual terms.

Business credit growth slowed in March, expanding only 0.3% in the month after monthly growth rates in a range of 0.5%-1.5% in the past nine months. Annual growth has eased to 9.4%, but remains very solid at this pace.

Households and businesses have been borrowing at a considerable pace in response to the record low cash rate. Now borrowers are sizing up the tightening cycle with the Reserve Bank (RBA) set to kick off rate hikes at next week's meeting.

Producer price inflation accelerated in the first quarter of 2022. The producer price index (PPI) jumped 1.6% over the quarter to be up 4.9% in annual terms. This is the fastest annual pace in over 13 years. The result follows a 1.3% quarterly rise over the December quarter and indicates that inflationary pressures are continuing to manifest.

China: The purchasing managers' indexes (PMIs) in China (published Saturday) weakened further and printed under 50.0, suggesting economic activity in manufacturing and services will soften over coming months. Each of the PMIs fell to their lowest levels since February 2020.

The manufacturing PMI fell from 49.5 in March to 47.4 in April (versus expectations for 47.3). The non-manufacturing (i.e. services) PMI fell from 48.4 in March to 41.9 in April (versus expectations for 46.0). And the Caixin PMI for manufacturing frll from 48.1 in March to 46.0 in April (versus expectations for 47.0).

Eurozone: Consumer prices beat market expectations in April. The headline index rose by 0.6% in the month and the annual rate lifted to 7.5%. The core annual rate rose from 2.9% in March to 3.5% in April.

GDP for the March quarter was in line with market expectations. It rose 0.2% in the quarter and 5.0% in the year.

New Zealand: Consumer confidence rebounded in April, lifting from the record low set in March. The consumer confidence index rose to 84.4, from 77.9 the month prior. Still, confidence remains around the low levels reached at the outset of the pandemic in 2020.

United Kingdom: House prices rose 0.3% in the UK, the slowest monthly growth rate in 6 months, according to Nationwide. The annual rate of growth slowed from 14.3% in March to 12.1% in April.

United States: The employment cost index rose by 1.4% in Q1, from 1.0% in the previous quarter. It was well above consensus expectations of an outcome of 1.1%. Benefits rose 1.8% in the quarter. The data suggests wage pressures are rising, as the unemployment rate declines and the labour market tightens.

Personal income rose by 0.5% in March, faster than the monthly growth rate of 0.7% in February. Spending rose 0.2%, after 0.1% growth in February. Both outcomes beat market estimates.

The headline personal consumption expenditure (PCE) deflator rose by 0.9% in April to a new record annual rate of 6.6%. The monthly outcome was in line with expectations.

The core PCE deflator rose by 0.3% in April in line with market expectations. The annual rate rose to 5.2% in April, down from the downwardly revised 5.3% outcome in March.

The US Federal Reserve eyes the PCE deflators very closely in making decisions on monetary policy. The strong result keeps the probability of a larger-sized rate hike this month very much alive.

The final measure for the University of Michigan consumer sentiment index fell to 65.2 in April, from the preliminary reading of 65.7. The revision downwards was due to a revised outcome for expectations (62.5 from 64.1). Inflation expectations in the survey remained unchanged; 1-

year-ahead expectations stayed at 5.4% and 5-10-year-ahead expectations stayed at 3.0%.

The Chicago PMI fell to 56.4 in April, from 62.9 in March. The result was well under consensus expectations (of 62.0). Weakness in new orders and production were the main drivers of the result. The survey continued to cite acute labour shortages and supply-chain delays.

Today's key data and events:

AU CoreLogic Dwelling Prices Apr exp 0.3% prev 0.3% (10am)

AU MI Inflation Gauge Apr y/y prev 4.0% (11am)

AU ANZ Job Ads Apr prev 0.4% (11:30am)

EZ Markit Mfg PMI Apr Final exp 55.3 prev 55.3 (6pm)

EZ Econ. Confidence Apr exp 108.0 prev 108.5 (7pm)

EZ Consumer Confidence Apr Final prev -16.9 (7pm)

US Markit Mfg PMI Apr Final exp 59.7 prev 59.7 (11:45pm)

US Construct'n Spending Mar exp 0.8% prev 0.5% (12am)

US ISM Mfg Apr exp 57.7 prev 57.1 (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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