

Monday, 30 May 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,183	1.1%			Last	Overnight Chg		Australia		
US Dow Jones	33,213	1.8%	10 yr bond	96.73			0.00	90 day BBSW	1.13	0.04
Japan Nikkei	26,782	0.7%	3 yr bond	97.13			-0.03	2 year bond	2.42	0.04
China Shanghai	3,280	0.2%	3 mth bill rate	98.69			-0.02	3 year bond	2.75	0.03
German DAX	14,462	1.6%	SPI 200	7,271.0			83	3 year swap	3.07	0.04
UK FTSE100	7,585	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.26	0.05
Commodities (close & change)*			TWI	62.6	-	-	62.6	United States		
CRB Index	320.5	1.9	AUD/USD	0.7095	0.7167	0.7089	0.7160	3-month T Bill	1.02	-0.02
Gold	1,853.72	3.1	AUD/JPY	90.20	91.12	90.00	91.04	2 year bond	2.48	0.00
Copper	9,459.50	109.0	AUD/GBP	0.5630	0.5678	0.5620	0.5669	10 year bond	2.74	-0.01
Oil (WTI futures)	115.07	1.0	AUD/NZD	1.0948	1.0968	1.0934	1.0958	Other (10 year yields)		
Coal (thermal)	349.50	9.4	AUD/EUR	0.6615	0.6683	0.6605	0.6669	Germany	0.96	-0.04
Coal (coking)	502.33	4.7	AUD/CNH	4.8028	4.8267	4.7988	4.8123	Japan	0.23	-0.01
Iron Ore	134.35	1.3	USD Index	101.72	101.94	101.43	101.67	UK	1.92	-0.05

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: The S&P 500 recorded its biggest weekly gain since November 2020, breaking a seven-week losing streak. The AUD/USD hit its highest level in three weeks on Friday, while US bond yields were little changed.

Share Markets: The S&P 500 surged last week after seven consecutive weeks of losses, and continued to jump higher on Friday. The rebound follows softer data and comments in the Fed minutes last week that the committee would be “well positioned later this year to assess the effects of policy firming and the extent to which economic developments warranted policy adjustments”. In other words, the Fed may not need to continue with aggressive rate hikes from later this year.

The S&P 500 and Dow both recorded their biggest weekly gains since November 2020, up 6.6% and 6.2% respectively, offsetting losses from May. The Nasdaq was up 6.8% over the week. Meanwhile, the ASX 200 was up only 0.5% over the week, although has generally outperformed US equities this year, supported by higher commodity prices.

Interest Rates: The US 10-year Treasury yield edged down 1 basis point on Friday to 2.74% while the 2-year yield was unchanged at 2.48%.

Markets are fully priced for a 50 basis point rate hike at the next Fed meeting in June.

The Australian 10-year (futures) yield rose 5 basis points to 3.28% while the 3-year (futures) yield

increased 3 basis points to 2.84%.

Markets are pricing the cash rate to be 31 basis points higher at the Reserve Bank’s June meeting and around 2.50% by the end of the year.

Foreign Exchange: The AUD/USD rose from 0.7095 to 0.7160, touching its highest level in three weeks, likely reflecting the global recovery in risk sentiment and higher commodity prices.

Commodities: Commodity prices were stronger across the board. West Texas Intermediate rose for the fifth consecutive week, settling above \$115 – its highest weekly close since March – alongside signs of tight fuel inventories.

Australia: Retail sales rose by 0.9% in April, hitting a new record high. This is the fourth consecutive month of growth and follows strong gains of more than 1% over the first three months of 2022.

Retailing is lifting as we learn to live with covid, but higher prices are also pushing up spending. The Easter period contributed to households spending more time eating out with family and friends and travelling.

Spending was mixed across categories. Services were hit particularly hard during the pandemic, including hospitality, but spending patterns are rebalancing as restrictions ease. You can’t keep Australians away from cafes for long. Indeed, the biggest increase in spending in the month was on dining out. In contrast, spending on household

goods edged back in the month.

Consumers face a mixed picture. On one hand, the unemployment rate has fallen to its lowest level in almost 50 years and wage pressures are elevated. Plus, some households accumulated savings buffers over the pandemic, which could support spending.

However, headwinds continue to build. Rising inflationary pressures and the prospect of future interest rate increases are also impacting consumer sentiment, which in May fell to its lowest level since August 2020.

China: Industrial profits declined 8.5% over the year to April, down from an annual rise of 4.2% in March. This was the first annual decline in industrial profits since April 2020, as stringent lockdowns grind activity to a halt.

Eurozone: M3 money supply rose 6.0% over the year to April, slightly below expectations for a 6.3% gain. The result was slightly weaker than the 6.3% annual growth from March.

New Zealand: Consumer confidence fell 2.5% in May to 82.3. The result follows a small rebound in April after confidence sank to a record low of 77.9 in March. Cost-of-living pressures and rising interest rates are continuing to weigh heavily on sentiment.

United States: Personal incomes rose 0.4% in April while personal spending rose 0.7% in the month – its biggest gain in three months. The numbers indicate households are maintaining spending in the face of price pressures by dipping into savings.

Meanwhile, the personal consumption expenditure index, which the Fed uses for its inflation target, rose 0.2% in April to be up 6.3% over the year, down from the annual inflation rate of 6.6% in March. The core reading was 0.3% higher in April and 4.9% higher over the year, down from an annual rate of 5.2% in March. While the annual inflation rate is cooling, the headline reading remains more than three times higher than the Fed's 2% target.

University of Michigan consumer sentiment was finalised at 58.4 for May, lower than its preliminary reading of 59.1, which was already the lowest since 2011. Escalating concerns over inflation have dimmed consumer confidence. The gauge for current economic conditions fell to a 13-year low of 63.3 while the measure of future expectations dropped to 55.2.

Today's key data and events:

EZ Economic Confidence May prev 105.0 (7pm)

EZ Consumer Confidence May Final prev -21.1 (7pm)

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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The Detail

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