

Monday, 31 January 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	6,988	2.2%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	34,725	1.7%	10 yr bond	98.05		0.01	90 day BBSW	0.08	0.00	
Japan Nikkei	26,717	2.1%	3 yr bond	98.54		0.00	2 year bond	0.95	-0.05	
China Shanghai	3,522	-1.0%	3 mth bill rate	99.83		-0.01	3 year bond	1.41	-0.06	
German DAX	15,319	-1.3%	SPI 200	6,896.0		-16	3 year swap	1.59	-0.04	
UK FTSE100	7,466	-1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	1.94	-0.08
<b>Commodities (close &amp; change)*</b>			TWI	59.8	-	-	59.4	<b>United States</b>		
CRB Index	252.8	1.9	AUD/USD	0.7030	0.7046	0.6968	0.6995	3-month T Bill	0.17	-0.02
Gold	1,791.53	-5.9	AUD/JPY	81.10	81.34	80.37	80.63	2 year bond	1.16	-0.03
Copper	9,555.50	-275.3	AUD/GBP	0.5254	0.5259	0.5203	0.5220	10 year bond	1.77	-0.03
Oil (WTI futures)	86.82	0.2	AUD/NZD	1.0689	1.0707	1.0649	1.0681	<b>Other (10 year yields)</b>		
Coal (thermal)	203.50	-1.3	AUD/EUR	0.6308	0.6318	0.6258	0.6276	Germany	-0.05	0.01
Coal (coking)	409.17	-0.3	AUD/CNH	4.4764	4.4859	4.4391	4.4542	Japan	0.17	0.01
Iron Ore	138.85	-7.2	USD Index	97.23	97.44	97.06	97.27	UK	1.24	0.02

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** There was a tentative stabilisation in risk sentiment on Friday, following the Federal Reserve's hawkish tilt earlier in the week. US equities rose and bond yields declined. The Australian dollar slipped to its lowest level since July 2020.

**Share Markets:** US equities rose on Friday as strong earnings overshadowed concerns about higher interest rates. The S&P 500 rose 2.4% although remains 7.6% down on its peak in early January. The Dow was up 1.7% and the Nasdaq rose 3.1%. Meanwhile, the ASX 200 was up 2.2%.

**Interest Rates:** The US 10-year and 2-year Treasury yields slipped 3 basis points to 1.77% and 1.16% respectively.

The Australian 10-year (futures) yield declined 8 basis points to 1.97% while the 3-year futures yield slipped 7 basis points to 1.47%.

Markets are fully priced for the first RBA rate hike in June 2022.

**Foreign Exchange:** The AUD/USD pair broke through 0.7000, falling from 0.7030 to 0.6968, its lowest level since July 2020. The pair are currently trading at 0.6995. The US dollar index was unchanged on the day.

**Commodities:** Gold slipped alongside the stabilisation in risk sentiment. Copper and iron ore declined.

**COVID-19:** Over the weekend, the NSW

Government announced a \$1 billion JobSaver-style package for small- and medium-sized businesses hit by Omicron. Eligible businesses will receive a payment of 20% of weekly payroll, up to \$5,000 a week (half of what was offered under JobSaver). To be eligible, businesses must have an annual turnover less than \$50 million and prove a 40% decline in turnover in January and expect to take a similar hit in February. Applications open from mid-February.

**Australia:** The producer price index jumped 1.3% in the December quarter. In annual terms, producer price inflation surged to 3.7% - the fastest annual pace in more than 12 years. The surge in prices has been underpinned by material and labour costs in the construction and petroleum industries. The data builds on the growing inflation pulse in Australia, adding to pressure on the Reserve Bank to pullback support.

**China:** China's slowdown appears to have extended into 2022, according to PMI data for January. The official manufacturing PMI edged lower to 50.1 from 50.3 and the non-manufacturing PMI declined to 51.1 from 52.7. Meanwhile the Caixin manufacturing PMI slipped into contractionary territory, hitting 49.1 in January, down from 50.9 in December. The Caixin survey captures mostly small private businesses while the official gauge surveys mostly state-owned enterprises.

**Eurozone:** Money supply rose 7.3% over the year to

December, up from 6.9% annual growth in November.

Economic confidence edged lower in January, falling to 112.7 from 115.3 in December.

German GDP shrunk 0.7% in the December quarter, alongside a wave of COVID-19 cases which led to a lockdown of unvaccinated citizens and wider limits on social contacts.

**New Zealand:** Mounting inflation pressures and the spread of Omicron weighed on consumer sentiment in January. The consumer confidence index dropped to 97.7, from 98.3 in December. This is the lowest level since April 2020, following the first wave of COVID-19.

**United States:** Federal Reserve member Bostic said the central bank could hike by 50 basis points if a more aggressive approach was needed to cool inflation. He noted “if the data say that things have evolved in a way that a 50-basis-point move is required or be appropriate, then I’m going to lean into that... If moving in successive meetings makes sense, I’ll be comfortable with that”.

Personal spending fell 0.6% in December amid the latest COVID-19 wave and the fastest inflation in nearly 40 years. Personal income rose 0.3% in December, undershooting the 0.5% projected by consensus forecasts.

The employment cost index rose 1.0% in the December quarter, taking annual growth to 4.0%, the highest in two decades. Labour shortages are driving up wages and salaries as businesses compete for staff.

The University of Michigan consumer sentiment survey was finalised at 67.2 in January from the preliminary estimate of 68.8. The sub-indices for current conditions and expectations both slipped. Inflation expectations were unchanged.

**Today’s key data and events:**

AU MI Inflation Jan y/y prev 2.8% (11am)

AU Priv. Sector Credit Dec exp 0.5% prev 0.9% (11:30am)

EZ GDP Q4 exp 0.4% prev 2.2% (9pm)

JN Industrial Production Dec Prel. exp -0.6% prev 7.0% (10:50am)

US Chicago PMI Jan exp 62.0mprev 64.3 (1:45am)

US Dallas Fed Index Jan prev 8.1 (2:30am)

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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