

Friday, 3 June 2022

| Equities (close & % change)              |          |       | Sydney Futures Exchange (close & change) |         |             |                      |         | Interest rates (close & change) |      |       |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200                              | 7,176    | -0.8% |  |         | <b>Last</b> | <b>Overnight Chg</b> |         | <b>Australia</b>                |      |       |
| US Dow Jones                             | 33,248   | 1.3%  | 10 yr bond                               | 96.48   |             |                      |         | 90 day BBSW                     | 1.22 | 0.03  |
| Japan Nikkei                             | 27,414   | -0.2% | 3 yr bond                                | 96.93   |             |                      |         | 2 year bond                     | 2.64 | 0.11  |
| China Shanghai                           | 3,348    | 0.4%  | 3 mth bill rate                          | 98.67   |             |                      |         | 3 year bond                     | 2.99 | 0.09  |
| German DAX                               | 14,485   | 1.0%  | SPI 200                                  | 7,245.0 |             |                      |         | 3 year swap                     | 3.38 | 0.00  |
| UK FTSE100                               | 7,533    | -1.0% | FX Last 24 hrs                           | Open    | High        | Low                  | Current | 10 year bond                    | 3.50 | 0.08  |
| <b>Commodities (close &amp; change)*</b> |          |       | TWI                                      | 63.3    | -           | -                    | 63.3    | <b>United States</b>            |      |       |
| CRB Index                                | 323.1    | 3.1   | AUD/USD                                  | 0.7177  | 0.7270      | 0.7141               | 0.7265  | 3-month T Bill                  | 1.10 | -0.01 |
| Gold                                     | 1,868.58 | 22.0  | AUD/JPY                                  | 93.40   | 94.38       | 92.85                | 94.35   | 2 year bond                     | 2.63 | -0.01 |
| Copper                                   | 9,504.50 | 53.0  | AUD/GBP                                  | 0.5747  | 0.5781      | 0.5727               | 0.5776  | 10 year bond                    | 2.91 | 0.00  |
| Oil (WTI futures)                        | 116.87   | 1.6   | AUD/NZD                                  | 1.1067  | 1.1097      | 1.1053               | 1.1078  | <b>Other (10 year yields)</b>   |      |       |
| Coal (thermal)                           | 390.75   | 0.5   | AUD/EUR                                  | 0.6736  | 0.6765      | 0.6704               | 0.6759  | Germany                         | 1.24 | 0.05  |
| Coal (coking)                            | 410.00   | 0.0   | AUD/CNH                                  | 4.8066  | 4.8399      | 4.7925               | 4.8366  | Japan                           | 0.24 | 0.00  |
| Iron Ore                                 | 141.95   | 1.6   | USD Index                                | 102.55  | 102.62      | 101.74               | 101.76  | UK                              | 2.16 | 0.05  |

Data as at 8:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** US equities rose alongside softer-than-expected jobs data, which some investors interpreted as alleviating some inflation concerns. The AUD/USD hit a one-month high while US bond yields were subdued. OPEC+ agreed to boost oil supply in the coming months although oil prices still rose.

**Share Markets:** US equities broke a two-day slide alongside the weaker-than-expected US labour market data. The S&P 500 rose 1.8%, the Dow was up 1.3% and the Nasdaq jumped 2.7%. The ASX 200 finished up 0.3%.

**Interest Rates:** The US 10-year treasury yield finished unchanged at 2.91% while the 2-year yield edged down 1 basis point to 2.63%.

Markets are fully priced for 50 basis point hikes at each of the next two Fed meetings in June and July.

The Australian 10-year and 3-year (futures) yields edged up 1 basis point to 3.53% and 3.09%, respectively.

Markets are priced for the cash rate to be 31 basis points higher at the Reserve Bank's June meeting and around 3.00% by the end of the year.

**Foreign Exchange:** The AUD/USD rose from 0.7177 to touch 0.7270 – a one-month high – and is currently trading at 0.7265. The pair increased alongside a weaker US dollar and stronger commodity prices.

**Commodities:** OPEC+ agreed to increase the size of its oil-supply expansion by about 50% in July and August, bending to pressure to fill the gap created by sanctions on Russian supplies. Ministers agreed to add 648,000 barrels a day of oil to the market in July and August, up from 432,000 barrels a day in recent months.

Meanwhile, the European Union approved a sixth package of sanction against Russia, including a partial ban on Russian oil imports.

West Texas Intermediate crude oil futures rose 1.4% to a little under \$117.

Metal prices have been boosted by news of easing COVID restrictions in China.

**Australia:** The trade surplus widened to \$10.5bn in April, from a revised \$9.7bn surplus in March. Exports climbed 1.0% in the month, supported by a rise in travel and other mineral fuel (LNG) exports. Meanwhile, imports contracted 0.7%.

**China:** Authorities have relaxed some of the strictest virus controls as COVID case numbers decline. Shanghai has lifted lockdown measures for residents in low-risk areas, while curbs on movement in several districts in Beijing have loosened.

China's strict adherence to its COVID-zero policy has dragged significantly on activity. To support the faltering economy, the authorities are unleashing sizeable stimulus. Adding to a raft of existing

measures, yesterday state-owned banks were ordered to provide 800 billion yuan in funding for infrastructure projects.

**Eurozone:** The producer price index rose 1.2% in April taking the index a whopping 37.2% higher over the year. The result was weaker than expected but still marked a new record annual inflation rate in data dating back to the early 1980s.

**New Zealand:** New Zealand's terms of rose 0.5% in the March quarter, following a 0.9% decline in the December quarter. The result was weaker than the 1.5% gain expected by consensus.

**United States:** Federal Open Markets Committee Vice-Chair Brainard (voter) said the Fed is unlikely to take a break from hiking rates in September, adding market pricing for 50 basis point moves in June and July is reasonable. Cleveland Fed President Mester (voter) also backed 50 basis point hikes at the next two meetings. Mester said the size of the move in September remains to be determined. She noted "readings on inflation provide compelling evidence that inflation is moving down, then the pace of rate increases could slow, but if inflation has failed to moderate, then a faster pace of rate increases could be necessary".

ADP employment was softer than expected in May, rising 128k, against consensus expectations of a 300k gain. It was the weakest month of jobs growth since the pandemic recovery commenced, held back by a decline in small business employment. The data indicates that employers struggled to recruit and retain workers despite near-record job openings.

Factory orders rose 0.3% in April, after advancing 1.8% in March. The result was weaker than expected but points to solid demand for US-manufactured goods, even while spending rotates back towards services.

Durable goods orders were finalised at 0.5% in April (revised up from 0.4%) underscoring sustained demand for equipment and goods. The figures indicate that companies are pushing ahead with capital expenditure plans as they seek to enhance productivity to offset the burden of high inflation and the tight labour market.

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

JN Nikkei Serv. PMI May Final prev 51.7 (10:30am)

AU Housing Finance Apr (11:30am)

Investor exp -2.5% prev 2.9%

Owner-occupier exp -3.5% prev 0.9%

Total exp -3.0% prev 1.6%

EZ Markit Serv. PMI May Final exp 56.3 prev 56.3 (6pm)

EZ Retail Sales Apr exp 0.3% prev -0.4% (7pm)

US Non-farm Payrolls Change May exp 325k prev 428k (10:30pm)

US Unemploy. Rate May exp 3.5% prev 3.6% (10:30pm)

US Avg. Hourly Earnings May exp 0.4% prev 0.3% (10:30pm)

US Markit Serv. PMI May Final exp 53.5 prev 53.5 (11:45pm)

US ISM Non-Mfg May exp 56.5 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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