

Tuesday, 3 May 2022

| Equities (close & % change) | | | Sydney Futures Exchange (close & change) | | | | | Interest rates (close & change) | | |
|--|----------|-------|--|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200 | 7,347 | -1.2% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 33,062 | 0.3% | 10 yr bond | 96.64 | | | | 90 day BBSW | 0.70 | -0.01 |
| Japan Nikkei | 26,819 | -0.1% | 3 yr bond | 97.00 | | | | 2 year bond | 2.56 | 0.11 |
| China Shanghai | 3,193 | 2.4% | 3 mth bill rate | 98.82 | | | | 3 year bond | 2.82 | 0.12 |
| German DAX | 13,939 | -1.1% | SPI 200 | 7,299.0 | | | | 3 year swap | 3.15 | 0.02 |
| UK FTSE100 | 7,545 | 0.5% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 3.26 | 0.14 |
| Commodities (close & change)* | | | TWI | 63.1 | - | - | 62.2 | United States | | |
| CRB Index | 309.2 | 0.9 | AUD/USD | 0.7070 | 0.7082 | 0.7030 | 0.7052 | 3-month T Bill | 0.76 | -0.06 |
| Gold | 1,863.02 | -33.9 | AUD/JPY | 91.78 | 92.15 | 91.50 | 91.82 | 2 year bond | 2.73 | 0.02 |
| Copper | 9,772.50 | 72.5 | AUD/GBP | 0.5618 | 0.5649 | 0.5600 | 0.5647 | 10 year bond | 2.98 | 0.05 |
| Oil (WTI futures) | 105.17 | 0.5 | AUD/NZD | 1.0930 | 1.0977 | 1.0929 | 1.0963 | Other (10 year yields) | | |
| Coal (thermal) | 283.90 | 3.8 | AUD/EUR | 0.6703 | 0.6726 | 0.6682 | 0.6714 | Germany | 0.97 | 0.03 |
| Coal (coking) | 521.67 | -3.3 | AUD/CNH | 4.6978 | 4.7228 | 4.6951 | 4.7086 | Japan | 0.23 | 0.00 |
| Iron Ore | 145.90 | -0.4 | USD Index | 102.96 | 103.75 | 103.11 | 103.61 | UK | 1.91 | 0.00 |

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 rallied near close to unwind early losses. The US 2-year and 10-year yields hit a more than three year high ahead of the Fed's May meeting this week.

All eyes now turn to the Reserve Bank's (RBA) monetary policy meeting today. We expect the RBA to hike rates by 15 basis points, while interest rate markets are less convinced, attaching a 64% probability to a 15 basis point move.

Share Markets: US share markets erased early losses to finish the day higher. The NASDAQ gained 1.6%, while the S&P 500 rebounded from a 10-month low to close 1.6% higher. The Dow Jones rose 0.3%.

The ASX 200 shed 1.2% in yesterday's trade.

Interest Rates: The US 2-year treasury yield increased 2 basis points to 2.73%, its highest level since December 2018. The 10-year yield briefly touched above 3.00% for the first time since December 2018, before retracing to close 2 basis points higher at 2.98%.

Interest rate markets are fully pricing a 50 basis point rate hike at the Fed's May meeting later this week. Further 50 basis point hikes are fully priced for the June and July meetings.

The Australian 3-year government bond (futures) yield rose 3 basis points to 3.01%, its highest level since April 2014. The 10-year (futures) yield

increased 5 basis points to 3.36%.

Interest rate markets have attached a 64% probability of a 15 basis point rise in the cash rate at today's RBA meeting.

Foreign Exchange: The Australian dollar firmed overnight, despite US dollar strength. The AUS/USD pair traded from a 13-week low of 0.7030 to an intra-day high of 0.7082, before settling around 0.7053.

The US dollar strengthened against a basket of its G-10 peers. The DXY index traded from a low of 103.11 to a high of 103.75, before consolidating around 103.62.

Commodities: Oil rebounded from an early fall, lifting from a low of US\$100.28 per barrel to a high of \$US105.94 per barrel. Copper firmed, while gold and iron ore softened.

Australia: Dwelling prices grew by 0.6% in April as the housing market continues to lose momentum ahead of expected increases in the cash rate from as early as today. In quarterly terms, price growth slowed to 1.9% over the three months to April – the slowest quarterly pace of growth since the three months to November 2020.

A large degree of variation exists across the country. Monthly growth in Sydney (-0.2%) and Melbourne (0.0%) was weak. Strong price growth in Brisbane and Adelaide continued in April – prices grew by 1.9% in Adelaide and 1.7% in Brisbane.

However, signs of slowing momentum are evident as the quarterly rate of growth declined.

Regional areas continued to outperform capital cities. In fact, while momentum is declining across both areas, growth has held up more strongly in regional areas than in capital cities.

The housing market faces a range of headwinds, momentum is slowing as stretched affordability, increasing supply, particularly in Sydney and Melbourne, and higher fixed rates impact prices. Expected cash rate increases will also weigh on the market in coming months.

Inflation expectations pulled back in April, from a record high in March. The Melbourne Institute's inflation expectations gauge fell to 3.4%, from 4.0% previously, alongside growing expectations of interest rate hikes from the RBA. However, inflation expectations remain elevated. Indeed, at 3.4%, respondents expect inflation to be above the RBA's inflation target band over the next 12 months.

Job advertisements edged down 0.5% in April, following a revised 0.7% gain in March. Job ads remain elevated despite the monthly fall and are around 70% above their long-run average. The result points to solid labour demand and supports our expectation that the labour market will continue to tighten over the coming months.

The RBA Board will meet today for its May monetary policy meeting. Following a much stronger than expected inflation print for the first quarter of 2022, and on the backdrop of a strongly recovering economy and a tight labour market, we expect the RBA to raise the cash rate by 15 basis points. This will mark the first hike in the cash rate in more than a decade and signify the end of the pandemic-era emergency stimulus implemented at the start of 2020.

Eurozone: The April manufacturing purchasing managers' index (PMI) was revised up to 55.5 at final figures, from a flash reading of 55.3. April's result is the softest reading since January 2021, however, activity remains in expansionary territory despite the impacts of the war in Ukraine.

Economic and consumer confidence slid further in April as the Ukraine war continued to weigh on sentiment. Economic confidence dropped to a 13-month low of 105.0, from a revised reading of 106.7 in March. Meanwhile, consumer confidence dipped to -22.0 at final figures, its lowest level since April 2020.

United States: The April Markit manufacturing PMI was finalised at 59.2, down from a preliminary

reading of 59.7. This is an improvement on the March result of 58.8 and is the third consecutive month manufacturing activity has accelerated.

The ISM manufacturing PMI softened in April, easing to 55.4 from 57.1 in March. All three index sub-components retreated in the month, led by employment which fell from 56.3 to 50.9 alongside growing labour shortages. Encouragingly, the headline index and each sub-component reported a reading above 50, indicating expansion.

Construction spending fell short of expectations in March, growing 0.1% in the month - the slowest monthly growth rate since July 2021. The result follows a 0.5% increase in construction spending in February and marks the 13th consecutive month of spending growth.

Today's key data and events:

NZ Building Permits Mar prev 10.5% (8:45am)
 AU RBA's Connolly Speech (9:30am)
 AU RBA Board Meeting (2:30pm)
 Cash Rate Target exp 0.25% prev 0.10%
 EZ PPI Mar y/y exp 36.3% prev 31.4% (7pm)
 EZ Unemployment Rate Mar exp 6.8% prev 6.8% (7pm)
 UK Markit Mfg PMI Apr Final exp 55.3 prev 55.3 (6:30pm)
 US Factory Orders Mar exp 1.2% prev -0.5% (12am)
 US Durable Goods Orders Mar Final exp 0.8% prev 0.8% (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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